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**The economic role of the State on the
Spanish democratization and
"development" process. A case of success?**

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Abstract

This paper analyses and discusses, from a political economy perspective, the long period of the Spanish economy, starting at the end of the Civil War and ending in 1993, being our final goal to establish whether what happened in that period of time in Spain can be characterized as a “success.” The analysis is initiated in 1936 when a military uprising led by General Franco, successfully won a civil war and becoming in a military dictatorship regime, which extended itself until 1975. After the dead of General Franco in 1975, though with much pain, a transition to a democratic regimen was initiated, being a first millstone the new Constitution of 1978. Since then the new regime was associated to an economic development with no precedents, despite economic and political crisis periods. We end in 1993, when a cycle or sub-period is over, a new economic crisis starts and Spain culminates its entrance at the European Union and, particularly, at the Monetary and Economic Union what, as it is well known, means the assumption of the Euro as a currency with a substantial change on the political and social policies role.

The paper has three sections. In the first one we review the political economy of the Francos’s regime and the transformations of the productive model, following the conflicts and struggles for political power amongst the different groups of the ruling class. This first section concludes with the main economic features following the recovery of the democracy, finishing in 1993 when Spain joins the Economic and Monetary Union. In this first section we pay a special attention to the evolution of the GDP per capita and its sectorial breakdown, the unemployment, the rate of inflation and the inequality. In the second section, the role of the State is analysed, according to a distinction between regulation and intervention practices. The analysis of the intervention practices distinguishes the direct one, that is, the role of the state-owned enterprises, from the indirect one, that is, the role of the public administration budget, paying attention to public expenditures, taxes, fiscal balance and public debt magnitudes and composition. The third section is devoted to the study of the role of industrial sector and its interrelationship with the internationalization and the technological changes as an engine of “development” during this long period. The paper finish with some concluding remarks.

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1. Spain's Political Economy, 1939-1992. From Fascist isolationism up to the integration into European Union.

We have to start remarking that the object of the present paper is just to analyse the economic role of the Spanish State as well as its impact on the productive system, particularly considering the industrial sector, and the technical change as an engine of "development". Our study focus on the period starting at the end of the Civil War, which was initiated when a military uprising led by General Franco, successfully ended and becoming in a regime which extended itself until 1975. Following to it, the role of the State is also analysed from the point of view of the process to democracy as well as its consolidation since 1978, a new regime associated to an economic development with no precedents despite economic and political crisis periods. We end in 1993, when a cycle or sub-period is over, a new economic crisis starts and Spain culminates its entrance at the European Union and, particularly, at the Monetary and Economic Union what, as it is well known, means the assumption of the Euro as a currency with a substantial change on the political and social policies role. In addition, as is well known, in the 1990s, a profound change began in the way the world economy operates

We are going to make a difference among the following periods: A first one, since the end of the Civil War until beginning 50's of the past century. A second period goes between 1951 and 1959. A third period goes since 1960 until 1975 which is coincident with the 1973 world-wide economic crisis climax and the Franco's death. A fourth period starting in 1976 with the decadence of the regime in force, the transition to the democracy and its consolidation, therefore to be separated in two sub-periods: Since 1976 until middle of 1984, and since then until 1993, the time when a new economic crisis starts and after which Spain joins the European Economic and Monetary Union.

For a better understanding of the role of the State on economy, what we call economic policy, the main basic object of this essay, we see

as a previous and necessary step to ask which kind of regime was imposed after the successful military upraise starting in 1936 and vanquishing after the Civil War. This is because our outlook of analysis is what is known as "Political Economy", it is to say, the part of the Social Sciences studying the *social* relationships of production, distribution and consumption of those goods (and services) which allow the material satisfaction of any population as well as its reproduction, paying attention to social rules and institutions on which such a relationship is developed.

There is a long term discussion among historians and political scientists about how to define the political model – and the economic model – imposed after the Civil War. It goes ahead from a pure terminological debate, due in a part to the confusion made since the beginning, based on the upraised assertions made by the rebels themselves about their definition and characteristics¹. It is, no doubt, a military dictatorship as a result of a military insurrection which self-definition was changing along the time, nevertheless more regarding the forms than its being.

The fact that General Franco took the leadership of State and Government at the same time, being called "Caudillo" (Chief), so that it is generally said that the regime was "franquist" or "franquism" gives indeed an idea of the relevant political autonomy degree obtained by the political superstructure. The dictator is going to get an undiscussed power, being personally powerful and concentrating on his own head the full power, acting as a referee solving the questions among the dominant classes, basically the large agricultural owners and aristocracy, the financial capital (the Banks) and the industrial bourgeoisie as well as large groups of petty bourgeoisie and public employees. And, as ideological and material content, militaries and Catholic Church were the support.

Since its beginning, franquism is self-defined as a totalitarian State, with a huge presence of

¹ The following is basically based on Biescas and Tuñón de Lara (1980), Braña, Buesa y Molero (1979) and Riquer (2010).

militaries on the Government activity, who are going to become in a regime's faction with and special leadership on repression. The second faction are going to be the so called "falangistas", the third one the traditional monarchist, the fourth one the financial capital and the fifth one the Catholics, despite within the latter it can be distinguished two different groups: At the beginning the catholic will be those linked to the Catholic Propagandists National Association and later on these will be removed by those linked to Opus Dei. Leaving apart the catholic, the rest of factions are going to be framed into the sole Party, the so called National Movement.

Until the end of the Second World War the totalitarian shape regime takes as its references the fascist regimes of the Nazi's Germany and Mussolini's Italy and defines itself as national-trade unionist and taking, on the other hand, the ultra-conservative Spanish tradition, of middle age character, represented by Falange. Notwithstanding and since the beginning the Catholic Church as well as the Vatican are going to play a legitimating role by fully involving themselves on the Civil War, justifying it and giving an ideological coverage to the rebels² in change of recovering their economic power, the influence and the privileges which had got earlier than the Second Republic came.

But since 1946³, and no leaving its totalitarian shape, the regime is going to defined itself

² Catholic hierarchy is going to bless and support the military uprising to which will see the as an "armed plebiscite", a "crusade" against the communism and the liberalism considered, by the way, as a sin. Also, it helped to extend ideas justifying and accepting the wild and bloody repression which started since the beginning of the insurrection, as well as the public employees purges. Character, extension and terrible results of repression and purges are described by Tuñón de Lara (Biescas and Tuñón de Lara, 1980) and Riquer (Riquer, 2010; chapter 3). As Riquer remarks ((2010; 121) "Never in Contemporary History, a civil conflict was followed with a so wide, violent and prolonged revenge. The franquist Regime made of the repression a need to hold and consolidate the Dictatorship. There was no interest to integrate from the political point of view to the losers but it was wanted only their destruction or their submission".

³ In September 1945 the fascist salutation was eliminated.

as a Catholic, Social and Representative State, inventing the concept of "Organic Democracy" established as a Kingdom (Bill of Succession dated July 26th 1947). A national-catholic system on which the tyranny of the beginning was mitigated once the ideological role (collaborationist and repressor) from the Catholic Church was consolidated and remarked after the signature of the Concordat with the Holy See in 1953. Along the 50's a new change occurs: the decisive influence from United States, which orbit had not totally left. The fascist expressions disappear nearly at all⁴ being substituted by a right-wing authoritarian system, still a dictatorship which holds an strong repressive set and where the financial capital obtains an hegemonic position within the dominant block..

Braña, Buesa y Molero (1977; 255) assert that during the first few years of franquism, at least until beginning of 50's, we are in front of a military dictatorship (something obvious on the other hand) and absolutely not in front of a fascist regime, however both are situations of exception, following on this way Nicos Poulantzas (1973). At the beginning of 50's a restructuring within the block in power takes place, starting on a Government change dated July 18th 1951, reinforcing so the hegemonic role of the financial capital. However, until 1957 there is a strong competition among dominant classes and factions. Hence, as Braña, Buesa and Molero (1979) assert, since the beginning of 50's an authoritarian-bureaucratic is established, as these authors follow the definition made by Guillermo O'Donnell (O'Donnell, 1975). In addition, the fact that there are not political parties drives to the development and functioning of a serial of *bureaucratic rings*, as defined by Fernando H. Cardoso (Cardoso, 1974). Such a form of State will survive until the representative democracy is re-established in 1978.

⁴ Let's remind the presence of an American military delegation by the beginning of 1948, the credit given by Chase National Bank in 1949, the credit approved by the U.S. Congress in 1950, the sales of wheat by the U.S. Administration or just to finish the Aid Agreement signed in 1953, plus others from privates and described by Braña, Buesa y Molero (1979; 193).

What are the ideology and the economic practice, in particular the economic practice belonging to these forms of State? Before responding such a question, it is convenient to make a little bit of History. It must be kept on mind that after the bourgeois revolution which takes place in Spain by the middle of Nineteenth Century, the Spanish economy inserts itself within the worldwide capitalism as a peripheral and dependent economy, as Braña, Buesa and Molero (1976) deeply documented. The Spanish nationalist capitalism stage during the first third of Twentieth Century, is going to become possible, among other reasons, due to the situation of *external vacuum*⁵ caused by the First World War and the crisis of hegemony in Great Britain, with a new accumulation phase which begins after the end of the Second World War, when the hegemony of the United States is consolidated.

Starting on the first period of Dictatorship, within the economic model designed during the Civil War and tried to be consolidated since 1939, we find a continuity of the Spanish nationalism which runs from the beginning of Nineteenth Century of which main characteristic expression within the economic sphere is the protectionism. Nevertheless, and regarding its functioning will depend at the end on export chances, basically Eastern agriculture and mining, despite it would appear to be paradoxical (Braña, Buesa and Molero, 1977; 132-133). But though there is a qualitative change since 1939, as then it is not only about to protect the national production, a key element on

⁵ As *external vacuum* it is understood "a development period of capitalism in a social dependent structure, corresponding to a world's capitalism crisis on which once the loops of subjection linking the dominant class on it to the dominant classes in hegemonic centers, productive resources are unblocked. It allows to preserve the most or the whole generated surplus so that a restructuration of the Economy with the subsequent promotion of new classes or classes portions to the block in Power. Such a restructuration drives by its own dynamics to a new organization of the said social structure within the World's system and when it overcomes the above mentioned crisis a new dependency form is established corresponding to a new hegemony at a World's scale (Braña, Buesa y Molero, 1976; 121). The concept is taken from De la Peña (1971; 104 y ss.), despite this author does not define it on an explicit way.

the so called Spanish nationalist capitalism way since the end of the Nineteenth Century, when the keystone is a customs tariff protection, the foreign trade policy. It is tried as well to arrive up to an economic self-sufficiency⁶ by deepening in *import substitution* policy, an economic growth model which connects to a well-known thinking line and design of economic policy developed in Latin America since middle of 40's in Twentieth Century. Furthermore, it is essential to remark that, equally as happened by the first third of such the same Century, by the 40's there is again an *external vacuum* context.

Just to understand the economic policy during these first years, the dictator's economic thinking acknowledgement might help. First of all, and in his view, the Spanish economy earlier than 1936 malfunctioned due to the political parties and trade unions, so that it was necessary to suppress them. Secondly, "Spain is a privileged country which is able to self-reliance. We have everything to live and our production is abundant enough to secure our self-surviving. We do not need to import nothing at all". Gold and currencies were absolutely not important; the important thing was to hold raw materials (Fontana, 1986; 29). In order to finance the war and re-building expenses he came up with the idea of establishing a tax on property of 1% of the capital. It would be the purest Spanish conservatism, military quarter version. (Fontana, 2001). The economic model is going to show a strong totalitarian content trying to get the economic independency, distrusting the external economic influences, to develop an alternative to liberal capitalism. A model led during those years by militaries and engineers.

The practical result is what at its beginning is going to be called *autarquía* (autarchy), that is to say, home market reserve as a result of a combination of nationalism, protectionism and State interventionism, continuing and reinforcing the way of the Spanish nationalist capitalism. The term is included within the

⁶ Supposedly by influence of German and Italian fascisms (Biescas. In Biescas and Tuñón de Lara, 1980; 23), what is denied by Fontana (1986 y 2001).

Bill of Regulation and Defense of the National Industry, dated November 24th 1939, as well as the Bill of that creates the National Industry Institute, dated September 25th, expressing more a desire with a clearly ideological content than a reality⁷. The meaning of *autarquía* was defined by Perpiñá (1952: 345), referring so the protectionist policies applied since the beginning of the Twentieth Century: "Protection to food products and raw materials so that as much as possible of them are produced in Spain; protection to those goods for their maximum level of consumption within Spain; protection to the industries so that they have not internal competence and their whole consumption were Spanish made. And such a system, as it can be seen, has been defined by a constant influence from particular lobbies in the political spheres". Then, it makes no sense to discuss whether there was or not an autarkic policy and whether this was imposed or wanted by the internal circumstances and mainly by external ones.

In this first period all the three main features, in our view, of the State's economic performance are going to be consolidated. First of all, the Indirect intervention via a minimum budgetary activity, with a first stage of relevant military expenses, within magnitudes of an underdeveloped country, what is connected to a very low tax burden and a regressive tax system, gnawed by the fraud. On the other hand, a direct very important intervention via State-owned companies, with the goal to arrive up to the industrialization. And as third feature, an also very important regulation activity to all the scope of economy. We will refer to it later on.

Such an economic model will get a first correction when the Second World was over with a

⁷ It is significant that the original name to be given to National Institute of Industry (INI) was, in appearance, National Institute of Autarchy, since it would have been designed not much to substitute or support the private enterprise but to develop the military industry as San Roman (2000) defends. The change of such a name explains from our view that the intention was to overcome a military strategy and the Word "autarchy" was not relevant at all. About how the INI role was conceived, see Braña and Buesa (1981).

change of Government in 1945, when the falangist strategy is left and it passes to the National-Catholicism. And it is consolidated when the external vacuum situation is broken and the first liberalizing measures are taken, returning so to the dependent capitalism which will start to reveal since 50's.

In 1951 a new change in Government occurs and it is going to prepare the join of Spain to the Western bloc. The new cabinet introduces a few liberalizing measures and a small commercial opening, cancelling the food's ration cards and the raw materials and energetic products quota. It is flashy that an internal report from the National Movement quoted by Riquer (2010; 395-396) and dated March 14th 1951, considers that Spain was at this time under a total economic broken up and a disordered political situation and that Spain had not as it was thought "iron-made groundworks but clay-made feet", an expression which was used again to describe the Spanish Economy as a result of Spain's joining the Economic and Monetary Union during the second half of 90's.

Until 1957 the political conflicts among the diverse dominant class factions is not to be solved, but the hegemony of the financial capital (born from the merge of Banks and industrial capital) is clear. Its power had been consolidated since the beginning of Dictatorship (Carreras and Tafunell, 2010: 279) and it was saved from the former decade intervention policy, avoiding the nationalization as it was called by the falangists. But the economic policy will be still erratic in the new presence of liberalizing ideas, besides the stay of isolating and autarchic ideas. These are times when the import substitution process is deepened nevertheless subject to the limits imposed by a growing commercial deficit, given the weakness of exports and the large increase of imports. All this despite the foreign investments start to come and also the imports of technology is going to be especially important. Within the political sphere, the Catholics support belonging to Propagandists National Association revealed on the Government change does not work. The year 1956 is critical to the

Dictatorship since, as unsurpassably Riquer summarizes (2010; 383-384): “There are five revealed elements on it notably conditioning the time to come of Regime: The unexpected and undesired independency of Morocco; The University students crisis of February events happened in Madrid; the explosion of a new wave of workers conflicts; the start of an up-tight discussion about the need of institutionalizing definitely the Regime; and the clear perception of the fact that the bankruptcy of the State made a change of the economic policy to be undeferable”. As a consequence, in 1957 the ascent of the Opus Dei’s sector to the Government and public institutions is consummated, providing the ideology and economic practice (the “technocracy”) needed for the Spanish economy re-integration in a new economic order of worldwide capitalism. The end of 50’s with a change of Government in 1957 are those times of transition, until culmination of leaving the nationalist way with the New Economic Management Plan, known as Stabilization Plan dated in 1959.

During the 60’s political tensions are going to continue, but extended due to the social conflicts, at the factories and universities, affecting to a great part of the society, something that repression could not control. Regime’s reaction is always and as a last solution the repression. It is highlighted by the state of emergency (also known as state of exception) in 1962 and 1963 in the provinces of Asturias, Guipuzcoa and Biscay, (all of these with a strong industrial presence), in 1967 in Biscay again, in 1968 in Guipuzcoa and finally in all across Spain in 1969. In 1963 Julian Grimau, a communist leader, was executed due to facts supposedly happened during the Civil War as well as two anarchists were executed too for false charges. This is the time when a special jurisdictional Court is established: The Public Order Court, specialized on political crimes and which will make an intense job until 1997, when its name changed to National Court, dealing since then mainly with crimes related to terrorism.

At the same time, contradictions among supporters to hold the intervention policy and

those others in favour of full liberalizing of Spanish economy continue. An example of these contradictions is the indicative Planning policy, inspired on the French model and designed by the technocrats, shaped on the three Developing Plans (1964-1967, 1968-1971 and 1972-1975)⁸. Also the application to become a member of the European Economic Community, in February 1962. Or the resurgence of the protectionist policy in 1965-67, trying to protect those economic sectors which were most awarded with the accumulation during the times of external vacuum. Anyhow, behind these policies is the target to stabilize the economy in order to secure the Dictatorship political continuity. But we have not to confuse this division about the economic policy with the division within the political sphere, which was splitted between those so called “immobilist” and those called “reformists”, as technocrats are going to support to the first ones (Riquer, 2010; 487), being this later faction the one with majority at these times Governments.

In 1969 the so called “Matesa’s Case” blows up. Matesa was a company with financial irregularities being support for it with several technocrats Ministers. Nevertheless, the result will be not that reformist power increases but, as their Ministers were ceased then, just the contrary, it made the technocrats reinforcement. It is proved by the appointment of a new “one-color” Government in October 1969, ending so the shy reformist opening time boosted by them.

Between 1957-59 and 1976, once a first phase of rationalization of the production system has been done at the beginning of 50’s⁹, an intense

⁸ In Estapé and Amado (1986) there is a summary of the characteristics of Spanish indicative planning, which at their beginning was presented as a technic to solve all the problems that suffered the Spanish economy. In any case, it should be remembered that the development plans they benefited mainly the large industrial and financial groups, as highlighted in Braña, Buesa and Molero (1984; C. III) research.

⁹ The first works of Braña, Buesa and Molero argue that in the 1940s a new industrializing stage begins, based on the statistics available at that time. Years later a reconstruction of the series of industrial production (Carreras, 1984) is carried out, that gives the author to affirm that in the 1940s there is a “brutal” fall of the process of indus-

economic change is going to occur but no without ups and downs. There is a first sub-period of growth until 1967 and a second one with the running down of the model until 1976. This change, as described with details by Braña, Buesa and Molero (1980), does mean the full insertion of the Spanish economy into the worldwide capitalism, consolidating a model of industrialization, of economic growth, dependent, getting the advantages of three elements coming from the capitalism of central economies, in particular from European ones. The first one is related to the high degree of growth averages in the countries of the centre and the new needs of work force to cover those non-qualified or low-qualified jobs, which will be provided by the immigration coming from peripheral countries. The second one is the mass tourism increase, as a consequence of the growth of levels of rent and welfare among the central countries. And the third one, the increasing availability of capital, with special regard in this particular case to the United States economy, for what concerns to the foreign capital investments and the technology exports to peripheral countries.

As a consequence, in 60's a few important transformations on the productive model take place, nevertheless the restrictions stemming from a high inflation, a trade balance deficit and the short increase of the employment rate (between 1960 and 1973 such a rate was

trialization. For which he has to manipulate a little the figures, making international comparisons with the period 1935-1950, in which the cumulative average growth rate of the industry in Spain is 0.58%, due to the fall that occurs because of the civil war. But with its own data it is verified that between 1941 and 1951 the index of industrial production grows 3.59%, which until then had only been surpassed in the period 1842-1851. Although it is true that in the period 1951-1961 the growth rate becomes 8.02% and in the period 1961-1971 is 9.14%. In fact, Miranda (2003) argues that in these years a structural transformation took place that allowed Spain to be placed, at the end of the decade, between the industrialized economies. A little exaggerated to refer to those years as "the night of Spanish industrialization", as if for the most emphatic condemnation of Franco's dictatorship economic arguments of this kind are needed. These issues are dealt with in more detail below in analysing the role of the industrial sector and technological innovation.

under an accumulated 1% annual), because a very intensive use of the capital, to what we will refer later on. Among these transformations the following are the most relevant: The exodus of Spaniards going abroad to work to developed countries in Europe (around 1,5 million) and the important domestic migration (between 1955 and 1975 around 4,6 million people changed their residence). The crisis on traditional agriculture caused by the rural exodus, beside a change on production to be adapted to the new food requirements, an important development of the cattle raising and the mechanization of farms. And also, the development of the industrial sector¹⁰ and services as well as the increase of regional diversities. Furthermore, in these years the concentration of the economic power in large companies is culminated, especially in the Banks¹¹. It is necessary to remind as well that at the end of the decade Spain loses two of its three colonial territories: Equatorial Guinea in 1968 on a traumatic process, and Ifni in 1969, remaining Western Sahara, which is lost in 1975 with economic consequences still to be evaluated.

Finally, during this decade relevant social transformations are going to take place. Among those we would like to highlight, the cities growth at expense of a loss of rural world¹²: the increase of the workers and middle class; the reduction of the illiteracy and the soft increase of the education levels with an important increase of schooling on Primary and High School education, beside with an enlargement of the teacher's body. The founding of Social Security in 1963, which started to provide health coverage up to the 80% of the population in 1973, as well as the beginning of a public pensions system. It is agreed that the main feature

¹⁰ To the point that some historian speaks of Spain finally culminating the industrial revolution, which had "failed" until then. This is discussed in depth below.

¹¹ As early as 1942, Franco declared, "Our Crusade has been the only war in which the rich have become richer" (Tuñón de Lara, quoting Paul Preston, in Biescas and Tuñón de Lara, 1980; 189).

¹² Although with a wild urbanism, without the slightest consideration of its tremendous effects on the environment and accompanied by huge speculation and corruption, especially at the local level.

of the Social Security “the deep inefficiency at the management of resources, basically due to the complex bureaucratic system, the absence of external control and its subjection to State-owned companies” (Fusi y Palafox, 1997; 349). Anyhow, the improvement of the level of life with the beginning of the consumer society, to become as usual at the homes the refrigerators, washing machines, televisions and even the cars. Such a combination of repression which injected a fear in the Spanish society, beside these changes and improvements maybe could explain the important social support to Dictatorship, with consequences brought even until current time

The end of Dictatorship, the transition to representative Democracy and its consolidation, overcoming social and military sectors threats which defend the Franquism is going to have as a consequence the attainment of highest degree and the subsequent exhaustion of the growth process and of the industrialization. A dependent economic model which could not resist the impact of the 1973 crisis with the increase of oil pricing in October 1973, after the ruin of the international economic system – the Global Plan – born from the Breton Woods agreement in 1971, so well described by Varoufakis (2011).

In December 1973 the Admiral Carrero Blanco, to whom Franco had awarded as Prime Minister in June, is murdered. For the first time the Heads of State and Government had been splitted. Then, a convulsed political period starts, the transition from Dictatorship to Democracy, what will have economic consequences, as unavoidably should happen. The Government following to the Carrero’s one will be presided by a falangist from the “immobilistic” sector. It is a Government which includes all the Franquism’s families...with the exception of the Opus Dei’s technocrats, and that cabinet is going to meet the economic crisis.

The reaction from the economic Authorities was not to rebound the increase of the energy prices, falling so the account of oil over the Public Treasury, with a slack monetary policy of low interest rates and abundant financing,

probably because they were mostly focused on home political problems. Among the most important we have: The shocks with sectors of the Catholic Church hierarchy which asked for respect to the Basques identity; the tricky court trial and subsequent execution of the anarchist Puig Antich; the success of the “Revolution of Carnations” in Portugal and the collapse of the Colonels regime in Greece; the Franco’s hospitalization in July 1974; the increase of the terrorist actions by ETA and other extremist groups like GRAPO or FRAP; the increase of the labour and Universities conflicts; the increase of repression with a new state of emergency in Guipuzcoa and Biscaye in april 1975; the death penalties to two members of ETA and three members of FRAP in September 1975; and one month later the invasion of Western Sahara by Morocco, the so called “Green March”, which ends with the Spain’s leaving. Anyway, it means the domestic disagreement about the Regime’s evolution. It ends with the Franco’s death in November 20th 1975.

The result of not taking measures against the oil prices increase was that energy consumption even grew up, the trade deficit was increased, the tourism and foreign investment revenues grew down and the foreign indebtedness increased as well. Just in February 1973, a devaluation of currency (Peseta at this time) was decided, quoting 66 Pesetas to 1 USD. Due to it, the own Spanish economic structure imbalances sharpened, in particular those referred to the industrial weakness, causing so an important economic slowdown until 1978, with an unknown inflation rate arriving up to over 22% in 1977 and arriving in Summer a year-to-year rate of 44%.

With the dictator’s death the Democracy recovery process starts. In our analysis we are going to distinguish two main periods: 1975-1985 which are the transition times, and 1986-1993 when the growth is back, mainly driven by the entrance in the called then European Economic Community, period which ends with the crisis of 1993, when our work is over.

The process of transition to the Democracy came at the beginning beside an explosion of

labour conflicts, the resume of terrorist actions by both ETA and GRAPO, the increase of Police violence with the result of workers dead and the appearance of the violence from the extreme right hand, also with dead people as a result. The period is led during the first times by Adolfo Suárez and it is going to be stamped by the economic crisis impact. Until the first part of the political reform is culminated and the first elections take place by June 15th 1977, it was very difficult to take measures in the economic sphere. *Union de Centro Democrático* (UCD) is awarded on elections but this Party, which had met the most of the different reformist political streams from the Dictatorship, had not a clear political ideology, even incorporating social-democrat wings. UCD is going to get 34,4% of votes and 165 seats at the Congress, as the Spanish system is bicameral, since the Senate was established as the second Chamber¹³.

These first measures are not going to be taken until the end of 1977 with the so called “Covenants of Moncloa” which drive to the Economic Reform and Stabilizing Program approved in

¹³ It seems to be interesting to detail a little bit the results. Among the Parties for election in the whole Spain, Partido Socialista Obrero Español (PSOE, Socialist Party)) obtained 29.3% of votes and 118 seats in Congress; Partido Comunista de España (PCE, Communist Party) 9.3% and 20 seats; Alianza Popular (AP) which meets Franco’s Regime reformists with involvement in Government who did not want to be integrated in UCD, obtains 8.2% and 16 seats; Partido Socialista Popular (PSP), 4.5% and 6 seats. For what concerns to “nationalist” Parties, it is to say regional Parties, in Catalonia the Pacte Democràtic per Catalunya obtained 2.81% and 11 seats; a Party which is a coalition of Catalan Christian-Democracy and the Center gets 0.94% and 2 seats; Esquerra Republicana de Catalunya, 0.79% and 1 seat; in Basque Country, Partido Nacionalista Vasco (PNV) obtains 6.3% and 8 seats; Euskadiko Ezkerra 0.34% and 1 seat. Another two regional Center Parties, one in Aragon (0.2%) and the other one in the province of Castellon, (,16%) obtain one seat each (something what gives an idea about the problems caused by the election rules, still unsolved today). Nevertheless, the second one of the last mentioned will integrate in UCD Parliament Group. In total, those Parties coming Franco’s Regime (AP and UCD) sum 43.10% of votes, left hand Parties (PSOE, PSP and PCE) sum 43.11%, the “nationalist” Parties 6.50% well understood that there was center- right and left hand Parties among them. A 5.7% of voters did not obtain any representation at the Congress.

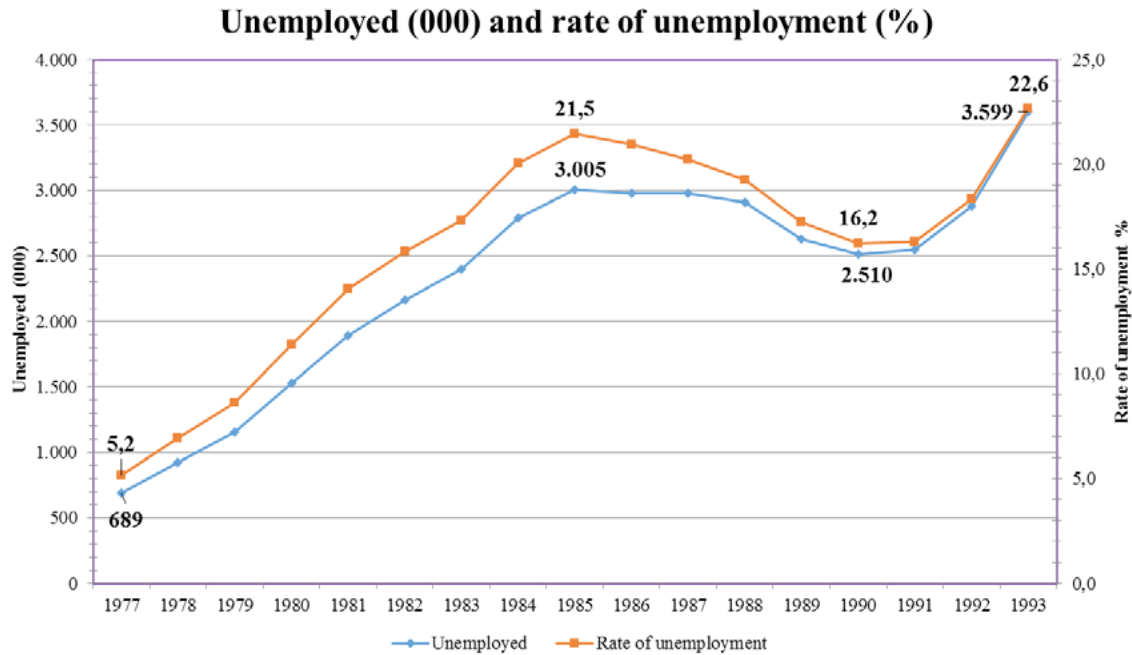
September¹⁴. The economic measures agreed with the moderate left hand Parties addressed, first of all, to fight against the inflation and the deficit of the balance of payments and they were seen as “*stabilizing measures*”. Measures of “*positive adjustment*” were taken, as well to introduce more flexibility in the markets and restructure those productive sectors which are under crisis. In addition to these measures the *social covenants* are signed by the socialist Trade Union UGT and the Employers Association CEOE, as another Trade Union, CC.OO. does not sign and the Government does not participate too. The first one of these covenants dated July 1979 is an agreement about how to set-up the new labor relationship frame and it will be reflected by the Bill approving the Statute of Workers (Estatuto de los Trabajadores) dated March 1980. The second one, signed in January 1980, already contains a policy for rents¹⁵. The results are very good and last until 1981 in two areas: The inflation grows down nearly 12 points in percentage and the balance of payments shows positive figures. And it is despite that crisis strongly strikes again, due to the oil prices increase because the war of Iraq and Iran. In 1981 a third covenant is signed, the National Employment Agreement, this time signed by the Government, the Employers Association and the most representative Trade Unions including for first time CC.OO. This covenant embraces different matters like salaries, employment promotion policies, unemployment coverage and Social Security.

Notwithstanding the results are not so good on other spheres. First of all, for productive structure, because the strong growth of interest rates started in 1977 hardly shocked against

¹⁴ In the drafting of the technical part of these Covenants a part of the officials who were in the Stabilization Plan will be involved, applying similar measures, based on the recipes of the orthodox economy, the mainstream. Perhaps this is one of the reasons for its limited efficacy, leaving aside the structural weakness of the Spanish economy, its dependent and peripheral character; a characterization that did not fit into the schemes of those economists, who called those who defended other alternatives as “occasional arbitrators”. See the narrative of one of the protagonists (Fuentes, 2005).

¹⁵ Among the various published works, we refer to the José Ignacio Pérez Infante (2009).

Figure 1



the companies which had indebted, among other reasons to be able to compensate the labour cost grows, in certain part due to the salaries increases, but on the other hand and much more important, due the social contributions increase.

Secondly, the unemployment rate did not finish to increase since 1977 passing from 5.2% of the working-age population (700.000 people) up to 15,8% (2.2 million) in 1982 when PSOE wins the elections (Figure 1). Notwithstanding there are three explanation factors jointing on the unemployment (Carreras and Tafunell, 2010; 388)¹⁶: a) The entrance to the labour market of the “baby boom” generations; b) Emigration change of way with the return of emigrants; And c) The agriculture employments growth down which, by itself only, might explain the Spain’s unemployment differential with the rest of Europe.

¹⁶ A much more complete and convincing explanation than usual, which attributes unemployment exclusively to the alleged rigidity of the labour market, particularly the high costs of dismissal. See, as an example of the latter argument that keeps repeating like a mantra still today, Rojo (2010).

Source: Statistic National Institute and own elaboration.

And thirdly, the Banking crisis caused by a set of factors (Carreras and Tafunell, 2010; 391-392): a) The links from the Banks to the industrial sector already developed since the beginning of the Dictatorship made that the industrial crisis drove to a hard shock on their income statements. b) The finance liberalizing effects which drove to a war for catching liabilities, with the subsequent growth of operating cost. And c) The financial Authorities inability to execute their supervision and surveillance functions. The result of the Banking crisis, of which it is not usual to talk about, meant that 58 among the existing 110 Banks disappeared between 1977 and 1985, extending so the oligopolistic structure on the sector with costs close to 2 trillion Pesetas (nearly the double of the cost of industrial reconversion to which we will make a reference later on) of which three quarters were provided by the public sector.

A basic question within this period and with deep consequences in the economic sphere is the State’s political decentralization, with the establishment of the so called State of Autonomies. The strong request during the Dictatorship to hold the language and culture in Cata-

lonia and Basque Country, which were hardly repressed, as well as the demand to recover the political autonomy obtained during the Second Republic time, were positively replied since 1977 by the Government led by Adolfo Suarez. In September 29th 1977 by mean of a decree the Generalitat of Catalonia is restored and in December 30th and also by a decree the General Basque Council is established. In 1978 the pre-autonomous entities of Andalusia, Aragon, Asturias, Canary Islands, Castille-La Mancha, Castille-Leon, Extremadura, Galicia, Balearic Islands, Murcia and Valencia¹⁷. The State of Autonomies is going to be incorporated into the Constitution of 1978, within the Title VIII, which will establish two ways to constitute an Autonomous Community with a different assumption of competences: those acceding via article 143 and the ones acceding via article 151, the so called “fast way”, with higher competences, as since the beginning are going to assume the competences on Public Health and Education. Nevertheless, at the final stage all of them could assume (and nearly did) the same level of competences. At the beginning the Government tried to limit the number of Communities acceding via article 151, producing so a huge conflict in Andalusia where two referendum had to be made to obtain the autonomy through such a way.

The decentralization process was (and still, is since as designed by the Constitution it remained open and undefined) very complex. Basque Country and Navarra are going to have a different and particular autonomous system in respect the rest of the Regions, the statutory system what means in fact that the resources per habitant will be much higher than the other and that negotiations will take place on a bilateral basis with the Central Government. For the rest of Regions, called as *common system*, the financing system will be ruled in 1983 by an Organic Bill and an Ordinary law related to Taxes Assignment. In the first one law in not

¹⁷ Navarra, which had retained its rights (*fueros*) during the dictatorship, does not become an autonomous community until August 1982, once it was decided not to integrate in the Basque Country. So what will be the final autonomic map, only remain Cantabria, La Rioja and Madrid, the three one-provincial regions.

explicitly included an equity criterion at the time to distribution of resources. And the law gives to the regions a small degree of autonomy and fiscal co-responsibility. The financing system will be furthermore revised every five years. All of that means a permanent process of negotiation between the Central Government and the Regions, and it must be added that the result is a no similar financing level for identical expenditure needs¹⁸.

After the approval of the Constitution a new call for Elections is made in 1979 and UCD wins again with Adolfo Suarez as Prime Minister, while a higher abstention. But the aim of covenant which had characterized the first times of transition is broken. PSOE promotes a motion of censure at the Parliament against the Government in May 1980, UCD starts to break up due to the internal conflicts among its diverse groups. The regional elections in Basque Country and Catalonia mean a growth of nationalist parties, and the terrorist offensive increases. The economy is affected by a new energy prices rises, the unemployment continues its increase and a new ambient of disappointing extends, basically referred to the Government but not to the Democracy. And in February 23rd 1981 a military coup which fails happens.

In October 1982 new Elections are made and PSOE wins with 48,1% of votes and absolute majority, getting 202 seats at the Congress¹⁹.

¹⁸ It is not easy to provide a reference book due to the enormous amount of written and research works, either from the economic side or from juridical side. As a general one, we risk to recommend the essay by Monasterio (2010). And for what concerns to the decentralization of expenses competences process and the problems which become in chronic since then, we recommend Braña and Serna (1997).

¹⁹ Alianza Popular, with 26.36% of votes and 107 seats will be the second political forcé. Centro Democrático y Social (CDS) founded by Adolfo Suarez after the UCD's breaking up will be the third one with 6.77% of votes and 11 seats. The catalan nationalist coalition Convergencia i Unió will be the fourth with the same seats as CDS but not the same votes, just 3.67% (Once again the electoral system shortcomings are proved). PCE obtains 4.02% and 4 seats. Basque Nationalist Party gets 1,88% and 8 seats. The remaining seats belong to nationalist Parties: Two of them are for the Basque Herri Batasuna (considered as ETA's political arm) with 1% of votes; one is for Esquerra Republicana de Catalunya with 0.66% of votes; and one

It is to be remarked that, between the Adolfo Suarez resignation and the call for Elections, the Government led by Leopoldo Calvo-Sotelo, an UCD's technocrat, will make a transcendent decision: The Spain's join into the North Atlantic Treaty Organization (NATO) with the opposition of the whole range of the left hand political Parties.

With the win of PSOE a new and long period that arrives until it loses the Elections in 1996, won by the successor Party of Alianza Popular which becomes in Partido Popular in 1989. Nevertheless, with the division in periods we are following, we closed this first period of Democracy in 1985, opening a new one for the years 1986-1993, marked by the entrance of Spain into the European Economic Community

The first PSOE's Government led by Felipe Gonzalez finds a deeply damaged economic situation, to which he faces with a breach of the program he won the Elections with. The two key Ministers at the economic area come from the Banks: Miguel Boyer (Minister of Economy, Public Treasure and Trade) comes from the Bank of Spain and previously from INI. Carlos Solchaga (Minister of Industry and Energy) comes from Banco de Vizcaya (and previously from the Bank of Spain too) and their liberal ideology had not too much to do with the original approach from affiliates to PSOE. They are going to lead an economic policy characterized by a hard adjustment extended until 1985. And it started with a devaluation of currency and an increase of the fuel prices.

In summary, the adopted policy will consist of the application of two different kind of measures. In one hand, an orthodox "healthy" measures with a restrictive monetary policy, the free float of Peseta, the public deficit reduction, the end of the Public Treasure resource to the Bank of Spain, the poise of the balance of payments (we have to remind on this way that, after a few years of surplus, there was a significant deficit in 1982) and a slow-down on salaries growth. It happened in the last case thanks to the social covenants: The Inter-Confederal Agreement dated February 1983 and signed

for Euskadiko Ezkerra with 0.48% of votes.

by all the social agents without the intervention of the Government; and the Economic and Social agreement signed in 1984 and on which CC.OO. did not participate and that is going to be in force until 1986.

On the other hand, we have the economic frame "reforms" measures. The industrial reconversion, an energetic plan, reduction of the number State-owned companies, labour market reforms, liberalization of services and financial market, fiscal reforms, Social Security reform (an increase in contribution periods for entitlement to the pension) and reforms of the Local and Autonomous Communities financing. The most controversial ones are going to be the industrial reconversion and the reform of the labour market. Before paying attention on the second one, as the first one will be studied below, it is important to remark that during the socialist Governments days the so called State of Welfare policies are going to be consolidated. We will make below a reference to it as well.

The labour reform, which was approved in August 1984, meant a radical change as it boosted the temporary (fixed term) contracting model. The temporary contract type was already included on the Basic Bill of Employment dated in 1980, but the reform extended its range to any unemployed person, removing the former ceilings established in relation to the companies' staff, being allowed to renew the contract every six months with a limit of three years. So, it does not lessen the value of the contracting causality only, but also it gives birth to one of the most important problems of the Spanish labour market by making a duality within this market with fixed and temporary employees, which has been aggravated then. The reform makes more precarious the employment, without giving a permanent solution to the problem of unemployment and with very long-term negative effects on productivity, as it causes a high level of temporary rotation and de-stimulates the companies' investment for employees training.

At the end of this period, several of the proposed targets are done. The imbalance of the

balance of payments is corrected, nevertheless not due to an improvement of the trade balance, as the imports grow up more than the exports, but thanks to an unstoppable growth of the tourism incomes and a short-time capital inputs. The inflation is significantly reduced and a modest growth of the GDP occurs. Notwithstanding the unemployment still increases: The rate arrives to a new maximum level in 1985 with 21.5% and three million of unemployed and only thirty thousand unemployed less in 1986, with a rate of 21%. During these four years the GDP per capita grows down in real terms.

We set in 1986 the beginning of a new period, which ends in 1993 with a new economic crisis in 1993. These are a few years during which the economic growth comes back, boosted on a great part by the entrance in the so called then European Economic Community. In 1985 a Government renewal had taken place due to internal disagreements with the leaving of Miguel Boyer, substituted by Carlos Solchaga. A few days earlier, in June 12th, the Accession Treaty to the European Community had been signed. In accordance to it Spain, beside Portugal, was going to become a new member since January 1st 1986, closing so a negotiation process which had started in 1983, just after the arrival to the Government.

As it is known, 1986 is the key for the future of what will be the European Union, as in February the European Single Act is signed by all the twelve members of the European Economic Union. We can summarize in four objectives:

- Set January 1st 1993 as the date to get an actual European single market, by removing all the bonds to the free mobility for goods and factors (work and capital).
- Extend the action field to areas like monetary cooperation and the environmental mean policies, Research and Development (R+D), energy and so on.
- Assume the need to deepen on economic and social cohesion.
- Increase the weight of the European Par-

liament and reform the decision making process, by increasing the amount of decisions subject to a single majority and reducing the countries veto.

The culminating process date was coincident with the one fixed to Spain by the Accession Treaty for concluding its tariff dismantling, of 100% in respect the EEC countries and the same tariffs as EEC country members to third countries.

A very relevant fact just at the beginning of this period is that a referendum is going to take place in Spain by March 12th 1986 to decide about the permanence within the NATO, something what made that Foreign Affairs Minister, Fernando Moran, resigned as the Government changed its position and supported the stay into the Organization. The polling question asked was seen as a tendentious one²⁰. The result was the approval of the stay with 52.5% of favourable votes but with a participation of 59.42%. The main factors which influenced on the change of the Government position were, in accordance to the summary made by Santos Juliá, "the pressure made from United States and several European Countries; the relationship between the stay into the NATO and the accession to EEC; and the favourable opinion of the Ministry of Defence to follow closely the links with the Alliance (Juliá, 1999; 266-267). It was also added to it the general idea that the exit from the NATO would be an imprudent position once the tension increased due to a second "Cold War" started in 1979 due to the Soviets invasion of Afghanistan.

But that is not all since during this period the design of an Economic and Monetary Union is going to start. The plan is approved just in Madrid in June 1989 and will culminate with the approval of the Maastricht Treaty in February 1992. As the Government was then an enthusiastic supporter to anything which meant Europe it decided to be integrated into the European Monetary System (established in March 1979 as a response to the worldwide crisis)

²⁰ Among other things, no reference to the Organization of the North Atlantic Treaty (NATO), his real name, but to the "Atlantic Alliance" is made.

but with a currency change (133.8 Pesetas = 1 ECU) what meant to overvalue the currency in respect to the rest of the European currencies and US Dollar. In order to contain the inflation and finance the deficit, the Peseta was put on the allowed fluctuation high band (6%). The impact of such a decision is not ignorable as it meant a strong damage on the balance of goods, higher than the one attributable due to the effect of the tariff dismantling, the suppression of fiscal protection to the imports and the fiscal subsidies to the exports in force at this time. Since then, the Spanish economic policy will consist of what is called “competitive de-inflation”, it is to say, the convergence with countries with lower inflation rates, in particular with Germany.

This period which some call the “integration cycle” and “accession cycle” by others, it is possible to split in two different stages, from the political economy point of view. The first one happens after the recovery of the two former years, an expansion remaining until the end of the decade. And the second one is an economic slowdown time of the biennium 1990-1992, a slowdown dissembled by the investor effort on the pomp of events which take place in 1992: Olympic Games in Barcelona, Universal Exposition in Seville and the award to Madrid as World’s Cultural Capital City. The period is in general characterized by the fact that the Spain’s economic cycles are going to show since then an almost perfect synchrony with the rest of the European Union, notwithstanding its profile is always going to be more remarked: Growing up better during the upward phases, growing down much more during the depressed phases.

Spain had never grown up that much within a so short period of time. In seven years the GDP, in Pesetas of 1995, per capita and in absolute terms, grew up the double than in 50’s, more than in 60’s and 70’s (but a little bit less in absolute terms). The accession to the European Economic Community is going to make that Spain becomes in an open economy, in change of a huge increase of the imports indeed and growing too the trade balance deficit. The

growing incomes due to the tourism, but in special due to the long term capital inputs until 1990 allowed a positive balance on the balance of payments. Nevertheless, the strong decrease of the latter since 1991 causes an enormous damage on the balance of payments which shows a negative balance in 1991 and 1992. There is a modest advance on inflation and public deficit. For what concerns to the inflation measured by the Consumer Price Index, it is reduced in three percentage points, remaining in 1992 on 5.8%. The General Government deficit is three percentage points reduced as well down to 4.0% in the same year. The unemployment rate has an important growth down until 1990 (see Figure 1), almost five percentage points, despite there is still over 2.5 million of unemployed, to grow up then since 1991 up to its historical maximum top in 1994.

There are several factors which will make an influence on the strong growth of this period, in particular related to the investments. We have the foreign capital flow to which we have already referred to, the fiscal stimulus to investment tax relief in production goods and the stimulus on the fall of energy’s prices. All of it makes that the contribution to growth on Gross Capital Formation’s GDP goes up to nothing less than to 47.5% (See Table 1 below). The flows coming from the European funds are important as well. Figure 2 shows the funds flows coming from the European Union, the contributions made by Spain, the balance between both and what it represents with regard to the Gross Domestic Product (GDP). The net posi-

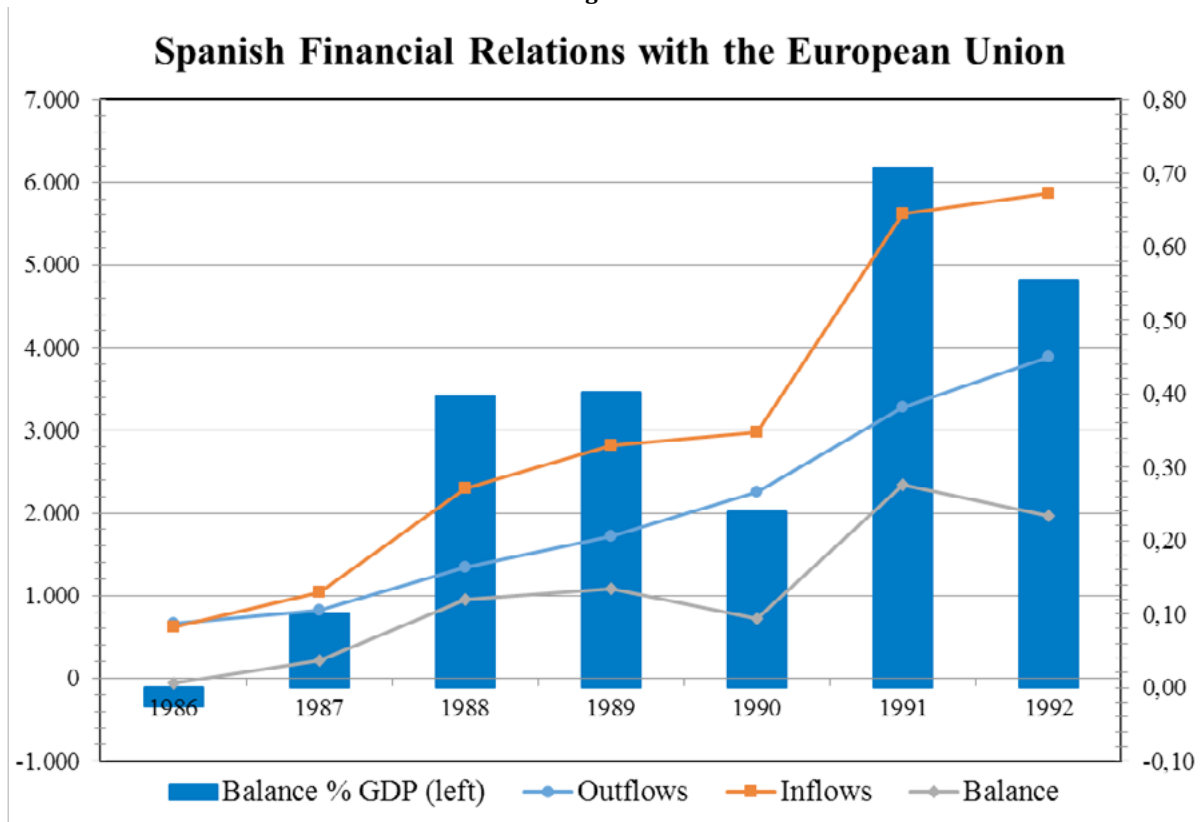
Source: Royal Institute Elcano (2006) and own elaboration.

Making a synthesis of this period García Delgado wrote on the third edition of *“Lessons of Spanish Economy”* in 1997, using the data given by Prados until 1993:

“Spain, at the end, which actual convergence with Europe – it is to say, in terms of welfare levels expressed in income per habitant – has been ‘late’ along the time and still is ‘incomplete’ (Comín), did not cease

tive balance during these years means nearly half a point on the nominal GDP's growth.

Figure 2



to be a *second class*, a *second line* country within the Western Europe countries industrialization scene; a peripheral country on this way too. (27). It is an economy of second range, on this meaning as well, which compared level of income per habitant puts it at the same time between two southern-peripheral countries: Italy and Portugal, forming so a differenced sub-set in some meaning. (28).” So that,” once the formerly said has been considered it is impossible to understand the Spanish experience as atypical within the European frame. The Spanish path is, in other words, *a fully European path* and its “normality” (Carreras) is to be remarked in front of any try of finding either presumed radically specific elements or singular at all” (29).²¹

²¹ It is noteworthy that the introduction chapter of these Lessons in its last edition in 2015, written again by García Delgado, the same evaluation is reproduced but the word “peripheral” disappears. And this is despite with occasion of the Great Recession, starting in 2008, the specialized media and mass media defines Spain as a European periphery beside Portugal and Greece. For instance, Tortella and Nuñez (2015; 577) consider that Spain belongs

Just to finish with this shallow analysis of the political economy on this period, it seems to be relevant to explain the social ambient surrounding the PSOE’s Governments during the last years. A sentence said in 1986 by the Minister of Economy, Carlos Solchaga, gives light on what happened: “Spain is one of the countries where more and faster is possible to earn money”. During these years and contrary to what was expected, it was consolidated the culture of enrichment, of money’s *glamour*, of success, which produced a wonder but also social rejection (Fusi and Palafox, 1997; 395). The rejection to the economic policy drove the Unions to call for a general strike in December 18th 1988 which palsied Spain. And since 1990 a serial of corruption cases which contributed to the PSOE’s fall started to be discovered. The cases of Juan Guerra (brother of the Vice-Prime Minister Alfonso Guerra), the case of Mariano Rubio, Governor of the Bank of Spain, the case of Luis Roldan, the first non-military Guardia Civil General Director involving the President of Navarre... And others scandals follow these in 1994: Those are the cases of GAL (a para-to the European periphery.

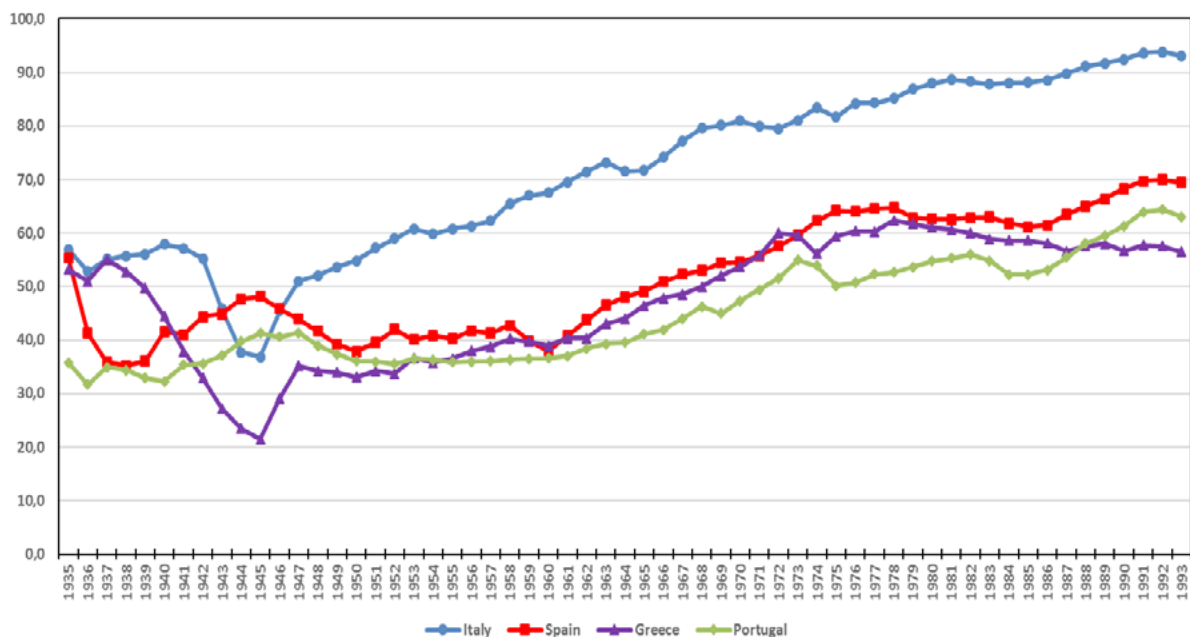
police group created in the Ministry of Home Affairs to fight against ETA's terrorism) and the papers of the Defence Intelligence Service or CESID (Defence Information High Central) which had spied to politicians and even to the King. All of it made an image of PSOE as a Party without ideas and without morality. In words by Fusi and Palafox (1997; 399): "Under the wings of the absolute majorities obtained in the Elections, the socialist power had derivate to a combination of caesarist-leadership, a prepotent policy, a Parliament devaluation and occupation of institutions".

On the light of the former, at the end of the period and absolutely not denying the progress made and, among them: the extension of public resources with a wide income re-distribution, the fast improvement of the education level and the labour force qualification, the building of a federal type de-centralized State; the Spanish economy shows itself again as a sand-feet economy and society as all the structural problems are going to appear again with virulence with the crisis starting in 1993. So that, Spain it seems not to be a "typical" experience into the European frame, as said. But this is an-rect hit of 1993 crisis.

other story not to be told here.

To get a global overview and picture of what happened during the Franco's Dictatorship as well as at the time of Democracy restoration, figure 3 shows the Gross Domestic Product levels (GDP) per capita in 1990 US Dollars in Italy, Spain, Greece and Portugal, compared with the average of 11 European countries since 1935 until 1993. These countries are: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Switzerland and United Kingdom. As it can be seen, the GDP per capita in Spain falls down during the Civil War, recovering during the first part of 40's when it falls in the rest of the countries as a consequence of the Second World War, with a deeper impact in Italy and Greece, but not so in Portugal. But after the Second World War it grows in all these countries whilst in Spain it falls until 1950, keeps stable during the whole decade and the drop caused by the Stabilization Plan of 1959 and 1960 can be seen. Since then it does constantly grow up to its top in 1978, keeping more or less stable until 1987 reflecting the impact of the entry in the European Union to come back to drop under the di-

Figure 3
GDP per capita levels in 1990 GK \$
A comparison with the average of 11 european countries



Source: Own elaboration from The Maddison-Project, <http://www.ggd.net/maddison/maddison-project/home.htm>,

2013 version. Data are in Geary-Khamis USD in 1990. Index 100 corresponds to the average of 11 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

And now, three additional comments: First of all, it does surprise that, with the exception of the two years impact of the Stabilization Plan during the above mentioned years, in all the rest of the serial Spain is always above Greece and Portugal but is getting farther from Italy. It must be mentioned at this stage that in accordance to this data source Spain does not recover its per capita income of 1935 until 1954. Compared with the average of the eleven European countries it will not recover such a level until 1971. As a contrast the European average to come back to levels previous to the war was 6 years.

As a second comment, Spain never overcomes the 70% of these eleven countries compared with. If we had included United States in this graphic, something we avoid not to break the scale, we could see this country is all along the period over 100 with an amazing grow in the first half of 40's and arriving in 1945 up to GDP per capita of 268% of the eleven European countries, starting then a drop until beginning of 60's, being stable on 133% of the average in 1993.

And the third comment, an important methodological clarification since data base referred to Spain might be undervalued as Naredo (1991) has noticed related to 40's of the past Century when analysing three revisions of the official GDP figures and offering his own one. Such an undervaluation is imputed by Naredo to two different factors: The first one is the uncritical sense of historians, who did not detect a set of incoherencies on their estimations, reducing the figures from the official ones to justify so with data a presumed dictatorship economic policy downfall during these years, mixing up political opinions and economic interpretations. And the second one is the corset imposed by the dominant economic theory and its accounting derivatives which does not allow coming to the complementary and measurable information sources, like physical, de-

mographic and territorial aspects when the statistic information is poor or limited. But specially, the accounting aggregate must be located on their social and institutional context. The importance of the black market can't be ignored as well as the added value generated by it related to consumption products and industrial products as well, "when the *estrap-erlo*²² was one of the main enrichment sources on the post-war economy" (Naredo, 1991; 21). The same might be said about estimations related to 80's which do not take into account the incomes generated by realizations of movables and real estate capital gains. So, in front of alternative estimations to the officials in 40's which even give a drop on GDP per active individuals, Naredo's estimation is an increase of a medium annual average growth rate of 2,1%.

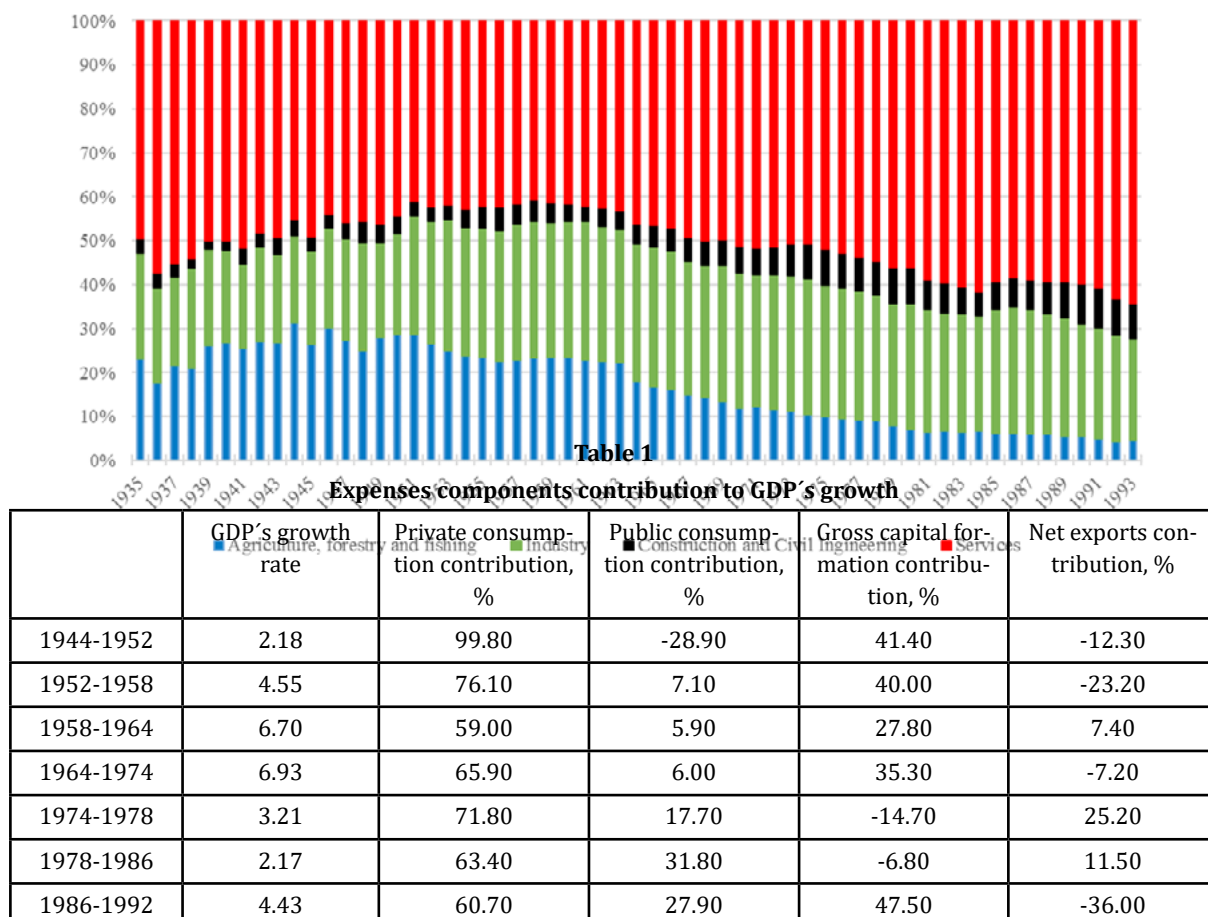
Source: L. Prados (2003) and own elaboration.

Facing to get an overview of the productive structure transformations in Spain, the Figure 4 shows the GDP distribution per economic sectors. Looking to it we can make the following reflections: First, the preponderance of Services along the whole analysed period, which overcome the 50% during the Civil War and increases again since 1970. But in the whole period it never drops down below 40%. Second, just during the years when Services participation drop these correspond to the growth of the Agriculture, Forestry and Fishing which arrives to its top in 1944, reflecting the process of the rural life expansion of both the Spanish economy and society during 40's, with ups and downs on the second half of the decade, starting then an unstoppable way down since 1952. The hunger and misery on 40's are going to drive a lot of families to be back in villages and small towns as a livelihood. Furthermore, the falangist idea to transform Spain in a country of small agricultural people must be added to the formerly said, despite it is necessary to remark that during these years the power of the great landowners was consolidated. And third,

²² "Estraperlo" is a term that comes from uniting the names of Strauss and Perlo, promoters of a rigged roulette that caused a scandal in 1935, which brought down the government of the Republic of then, being associated to the widespread black market that characterizes the 40's (Clavera, 1976).

Figure 4

Participation of economic sectors in the GDP (%)



Source: Taken from Prados (2003; Table 6.4).

the increase of the relative importance of the Industry since 1945, arriving up to its top in 1965 with some stability until 1974, starting then to lose economic weight. As a last comment, Construction and Civil Works increase their importance along the period with ups and downs and never overtaking the 10% of the GDP, being the final years of the period when arrives to a higher relative importance. This evolution of the Spanish economy sectorial structure is confirmed if data of employment are used, with a few nuances, as the employment within the Services sector represents over 60% of the total employment at the end of the period, starting it decrease since middle of 50's, whilst Agriculture, Forestry and Fishing sectors which mean 50,5% in 1940 will

not lose its relative importance until the end of 50's, collecting roughly a 9% of the employment still in 1993²³.

²³ It has been argued that the increased weight of services does not hold if the composition of GDP at constant prices is analysed. "In 1959, the set of activities encompassed under this name (...) was, at constant 1986 prices, 47.6 per 100 of the total. In 1973, the proportion had not only increased; it had dropped half a point to 47.1 The seven points of the nominal increase vanish when taking into consideration the inflation rate". But if the data of Prado (2003) on the deflators of GDP at factor cost by industry are used and the deflator of services are calculated relative to the GDP deflator and the deflator of industry, throughout the period the deflator of services is always below the industry, although the former does not stop falling since 1953, while the second continues to grow since 1963.

It is also interesting to learn which have been the engines of the economic growth, in macroeconomics terms, so that the Table 1 disaggregates those factors contributing either on a positive or negative way to the GDP growth, in accordance to the economic cycles used by Prados (2003) on this respect. We want to remark, first of all, how the public consumption brings a very negative, and very small afterwards, until 1974, what could give an idea about the little size and economic fall upon economy of General Government during Franco's time. Secondly, the important contribution of the Gross Capital Formation, it is to say, the investment during Franco's time, which becomes negative when the 1973 crisis starts. It will be recovered with the entry in European Economic Community.

And thirdly, the negative contribution of the foreign trade, which it is positive only in the period 1974-1976. In almost sixty years only in two (1944 and 1960) the exports overcome the imports, what it gives an idea of the important foreign restrictions of the Spanish economy²⁴. Furthermore, if data of Balance on Current Account and Capital are analysed, the inputs of tourism, the remittances made by the migrants and the long term capital inputs are those which make that balance is positive, nevertheless not during the whole period we are analysing. Between 1949 and 1982, as well as in the periods of two years 1965-1966, three years 1974-1976, in 1982 and in the four years 1991-1994 the balance will be negative, showing the big limits of the economic policy applied in every former period. Already in 1959 one of the Stabilization Plan measures was a Peseta's devaluation intending to correct the strong unbalances of the foreign sector, putting it at the Exchange of 60 Peseta for 1 USD. In November 1967 it was necessary to resort to a new devaluation, this time down to 69 Peseta for 1 USD. New devaluations will take place in 1976 and 1977, being the latter the most important one as a consequence of the adjustments measures contained in the Covenants of Moncloa, arriving down to 87.3 Pesetas for 1 USD on buys and 97.5 on sales. The next devaluation will take

²⁴ As per imports and exports rebuilding made by Antonio Tena in Carreras and Tafunell (2005).

place when PSOE comes to the Government in 1982, being the exchange 127.1 Pesetas for 1 USD. Finally, within the period subject to this study, a new devaluation fixed the exchange on 139.76 Pesetas for 1 USD.

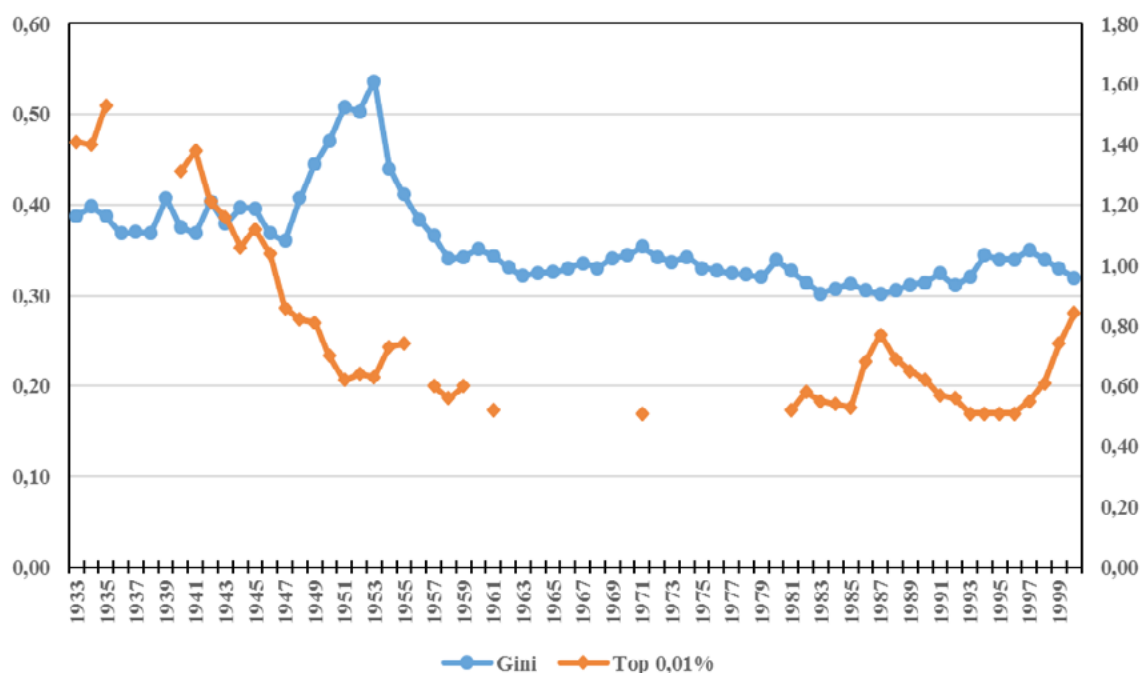
In this short evaluation of the economic policy of this period, it is important to know how the distribution of the rent has been. To size the inequality and the poverty, the most suitable information source are the polls to the homes, but unfortunately the only available reliable data for Spain are those from the Families Budget Poll dated 1973-1974, despite there are data from former years and different polls (Ayala, 2016; 18-23).

Due to it and first of all, we came to the calculation made by Prados for a long period as shown on Figure 5, representing two measurements²⁵. On one hand, an index of Gini built by Prados (2008) based on National Accounts data about the functional distribution of income among labour incomes and property incomes (left side scale), on which it is combined the inequality within every group with inequality among intra-groups. On the other hand, the participation of the one per thousand of the population (the highest incomes) in respect the total incomes (right hand scale,) with data obtained from tax registers by Alvaredo and Sáez (2009). We are interested on what happened during the period object of this work, since 1935 until 1993, because the Figure 5 starts in 1929 and ends in 2000. In respect of the data by Prados, after a strong reduction of the inequality during the Second Republic time, at the first few years of the next decade the tendency is reversed, despite that it happens with ups and downs, to which no explanation is made, to increase drastically since the end of 40's and beginning of 50's. The last two thirds of 50's show a very important fall down which, with an upturn due to the consequences of the Stabilization Plan, goes continuing until the crisis of 1967. Since then there is a relative stability, which starts to fall down since the Democracy restoration, with an upturn again with the crisis of 1979. In the 80's

²⁵ We thank Professor Prados de la Escosura for providing us with his original data, allowing to draw the figure.

the inequality falls down again, until the crisis in 1993 makes it to increase on an important way.

Figure 5
Spain's Long Term Inequality
Gini Index and Top Income Shares



Source: Alvaredo and Sáez (2006) and Prados (2008: 302).

The data by Alvaredo and Sáez show a deeply different evolution. A continued growth down of highest incomes participation since the beginning of the Dictatorship until the first years of the 50's, a certain stability since then (despite there are just a few years on its estimation) and an opposite evolution than shown by the Prados data since 1981. Such a different evolution makes Prados to say that the inequality evolution in Spain is not influenced by the capital incomes concentration changes, but by the growth on property incomes participation in the total income²⁶.

From Prados point of view, the growth of inequality on functional incomes distribution at the first time of the Dictatorship is due to a polarization between labour inputs and capital

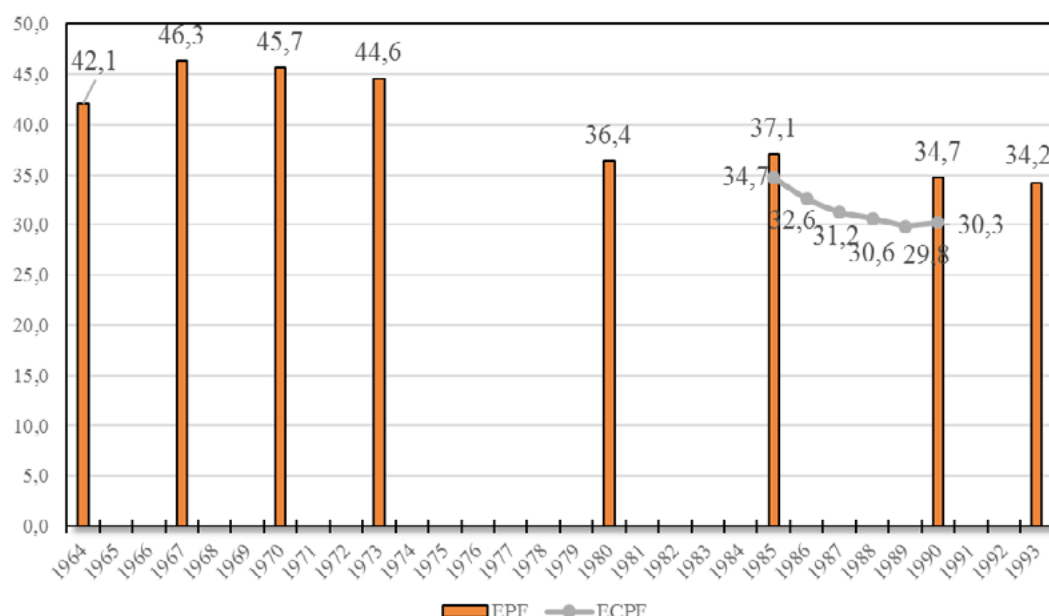
inputs, since the scarce factors, land and capital, were themselves favoured by the economic policy at expense of the labour factor, which was distributed on a more equitable way. The relevant decrease of inequality since 1953 would be the result of the acceleration of the economic growth with better life conditions, the urbanization process and the increase of the labour incomes participation in the national income. Since the beginning of the 60's the decrease of the inequality, with the said ups and downs, it would be due to the economic growth, with an increase of savings, as well as to the increasingly access to the home ownership, which reduced the property incomes, the increase of the education levels, the moderate

²⁶ For a short but illustrative description of methodological problems on the kind of estimations made by Prados, see Ayala (2016).

growth of the social expenses and the decrease of the regional inequalities. With the restoration of the Democracy the social expenses for pensions and unemployment benefits, as well as the current expenses and investment on education and health grew, beside the decentralization process, something which impelled new inequality decreases.

Figure 6

Gini Index (Disposable income)



Source: Alcaide (1999), Barómetro Social de España (www.barometrosocial.es) and own elaboration.

As a second point, and using data coming from the home polls, we can see on Figure 6 the evolution of the incomes personal distribution between 1964 and 1993. Unfortunately, we have only data related to individual years from diverse families' budgetary surveys and just a continuous series on the period 1985-1990 from the Continuous Families Budgetary Survey. Anyway, we can get an idea about the very unequal income distribution during the last years of the Dictatorship. The restoration of the Democracy attains a substantial reduction, which is obvious and continued after the arrival of PSOE to the power, despite the crisis is going to make a small increase of inequality which will be kept along the further years.²⁷

In order to complete the income distribution and economic magnitudes perspective, it is interesting in our view to show the evolution of

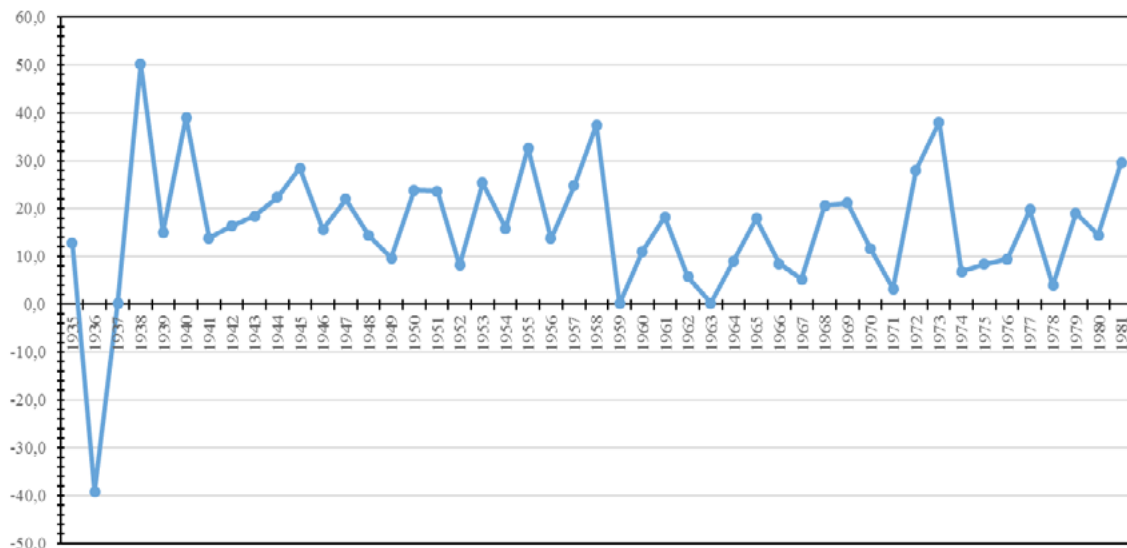
²⁷ It must be taken in account that these data refer to the disposable income, it is to say, after taxes and transfers from the State. If we calculated the income inequality before the activity from the State, the Gini index in Spain will substantially higher.

the enterprises profits. We have for it the investigation by Tafunell (1998) on the period 1880-1981, nevertheless it is referred only to the large companies. The Figure 7 shows the profits annual variations which, surprisingly, it is negative only in 1936 and nearly zero in 1959 and 1963, despite it shows considerable ups and downs during the whole period. It strikes that the profit growth rates during this period are not only positive but they are even high in certain years. In fact, during the period 1940-1950 the average rate is 5.38% whilst the Spanish economy faced to very severe restrictions. As remarked by Tafunell (1998), the economic atony did not impede the earning of high enterprises profits. "Just the contrary, the same factors which made the first – quotas, imports licenses, goods appraisals, new investments authorizations, and so on – made the perverse effect of increasing disproportionately the established companies' margins" (Tafunell, 1998; 734). During 50's the profits are high, with a growth average rate of 10.36%, which might be attributed to the liberalizing measures, despite the strong the

strong decrease in 1959 due to the Stabilization Plan. During 60's the growth comes down influenced by the strong decrease in 1963 and 1967 to which it is not possible to find any explanation, as the Spanish economy is growing a lot, nevertheless the average growth is

5.36%. Since 1970 until 1981 the growth stops as the average rate of the period is 1.6%, what is a consequence of the 1973 crisis fall down (despite it is not easy to explain the fall down in 1971).

Figure 7
Nominal Profits. Growth Rates



Source: Tafunell (1998) and own elaboration.

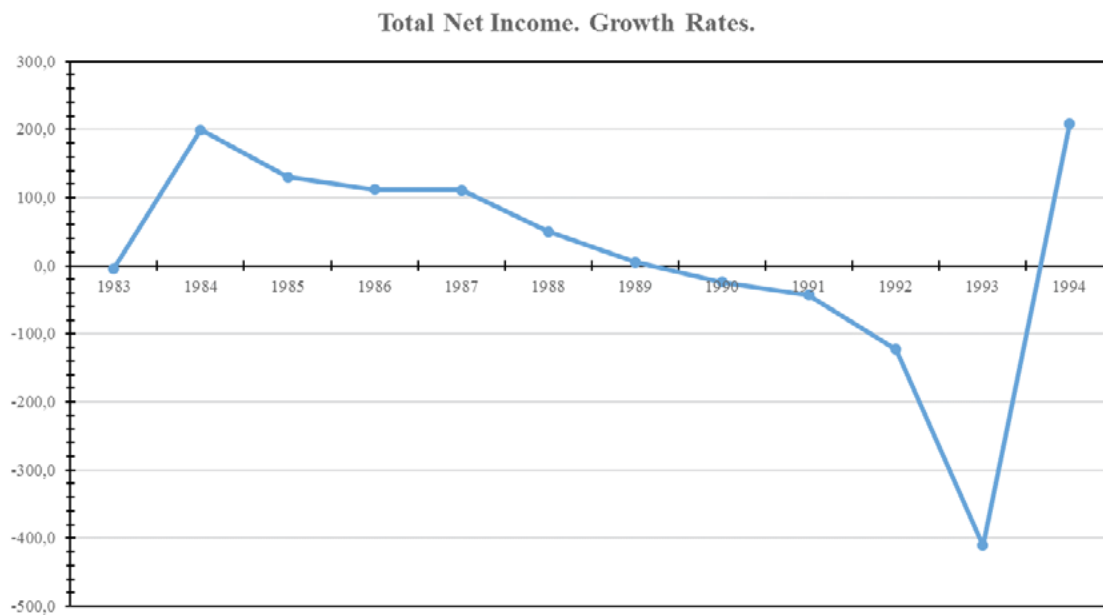
Since the serial by Tafunell stops in 1981, we went to the Bank of Spain Balances Central, despite its coverage of Spanish companies is reduced (around 25% between 1982 and 1990, increasing up to 35% from 1991). The Figure 8 shows the growth rate of the total net result. The enterprises profit does not stop to fall down to a minimum level in 1993 despite that, by surprise, will get a strong recovery in 1994. The fall down is difficult to be explained bearing in mind that the GDP shows a high growth rate as a consequence of the Spain's accession to the Economic European Community: The GDP growth average rate between 1982 and 1983 is 3.02% but the average in the period 1987-1990 is 5.22%.

Just to finish this economic evaluation of the period subject to the analysis, we study now the evolution of the prices. We have used for it the GDP deflator data made by Prados (2003), shown in Figure 9, instead of a cost of living index or a consumer price index, as there is not a homogeneous series to these magnitudes for this period.

In 1946, 1950 and 1976 the inflation is going to be over 20% a year with another important peak in 1956 when it arrives up to 15%. But meanwhile the inflationary episodes in 1946 and 1950 are followed by a strong decreases, it is since 1969, no doubt, when it will not cease to increase year after year, up to the highest peak of the whole period, in 1976. And the explanation to it is found on a joint of several factors. On one hand, during 40's there is an imbalance between offer and demand as a consequence of the scarcity. On the other hand, there is a growth model, one of which characteristics is the way the economy was financed, in particular the pledging issuances of public debt until 1959 what increased the uncontrolled monetary mass and generating an inflation of demand²⁸. In 70's it is possible to explain due

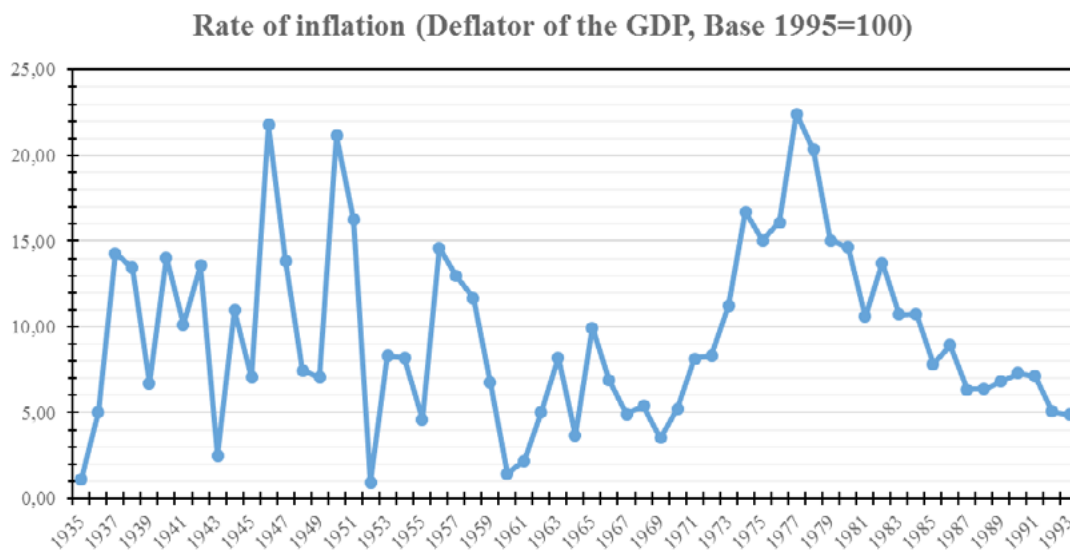
²⁸ The automatic pledging, a system established in 1917, meant that the private Banks subscribed the public debt titles, sometimes on an obliged term due to the being of investment coefficients to finance the debt of the State and the INI as well. Those titles allowed to the Banks to get loans from the Bank of Spain on an almost automatic way at a "pledging" interest rate, which was fixed by the Ministry of Public Treasure and which was lower than

Figure 8



Source: Tafunell (1998) and own elaboration.

Figure 9



Source: Prados (2003) and own elaboration.

to the exhaustion of the productive model and the economic policy applied during the last times of the Dictatorship, in special after the 1973 crisis, as salaries increase occurred as a way to peace the growing labour conflicts. It would be a structural inflation since the political conflicts were taken to the sphere of the companies as there was not suitable channels the rate applied by the Bank of Spain for granting loans to the private Banks.

for its reveal. It is also to be taken into account on this structural inflation the high degree of monopolistic economy and the service s sector rigidity. Only after the Covenants of Moncloa, after the restoring of the Democracy, the inflation is being to be controlled, what it was one of their main goals, getting the target to make it descend until the 1993 crisis, but not without important upturns in 1982 and 1986.

2. The economic role of the State in Spain, 1939-1993.

It is now the turn to analyse on detail what we consider the three main economic performance of the State during the Franco's Dictatorship. Our analysis will be based on the methodological purpose by Braña (2010). In accordance to it, the performance of the State is doubled as regulation and intervention practices. The regulation practices are those trying to secure the production relationships general conditions of reproduction which, on every social formation, are not born from the autonomous function of the market. The intervention practices can be of two types: direct intervention and indirect intervention. By direct one it is understood the fact that the State passes to be a direct goods and services producer, basically via State-owned companies. As in-direct intervention it is understood any formal or informal activity within the budgetary activity as, in certain historical times, these are made off the Budget in order to remove them from the control of the Parliament. It is necessary to re-mark that every intervention practice is linked to a previous or, at least parallel, regulatory activity.

2.1. The regulation practices.

We will start with the analysis of the regulation practices. The national ways to capitalism and, in particular the Spanish way adopted by the Franco's regime, is going to be based on a strong regulation activity within the whole economic sphere. We will refer in this work to some of its most important reveals

In May 14th 1939 the basic products rationing starts and will not end until June 15th 1952. To it, in 1939 the Transport and Supplies Commissariat (CAT) is established and will be extended until 1981 when SENPA (National Service of Agrarian Products, depending of Ministry of Agriculture), takes the ownership of its goods although the provincial delegations remained until 1984. The CAT is provided with two main functions: The compilation and centralization of economic products seen as essential and their re-distribution via a rationing system. In

1940 the Fees High Prosecutor's Office is established by the of Fees Law dated November 30th 1940, which target is to get the denunciations related to violations committed against such a Law (sales of goods at higher prices than fixed, and so on) as well as to apply the subsequent penalties. The Fees High Prosecutor's Office disappears by a Decree dated December 26th 1963. Since then all its inspection and sanctioning functions are passed to the Ministry of Commerce and most particularly to its Market Discipline Inspection Service.

The operating ways and the consequences of these regulations are well studied, as they will make since the beginning that a "black market" appears, what in Spain was called "*estraperlo*", something to what we referred on the former section when we collected a few criticisms to the GDP calculations made by some authors. "The *estraperlo* is going not only to mean the sales at abusive prices, tricking so the legal commercial ways of food such a bread, olive oil, coffee or sugar, but also – for have been made due to the same reasons – the illegal sales of raw material or manufactured products, as well as the corner of all kind of goods facing an artificial scarcity and with it the so coveted increase of prices, being all of them typical *estraperlo* activities" (Clavera, 1976; 91). The practice of *estraperlo* will bring the parallel market, the so called black market, on which those goods which do not arrive to the legal market are commercialized.

Carlos Barciela is who has mostly studied the agrarian products black market (Barciela; 1986 and 1993) but *estraperlo* did not limit itself to the agrarian products as it also affected to the cotton and wool by-products, the work-cattle raising, different metals and the fuel, textile industry, paper industry and leather manufactures, among others not that much studied (Clavera, 1976; Catalán, 1994; 385). It is necessary to re-mark that the Franco's administration kindness and its extension during many years made a social acceptance atmosphere, among producers and consumers, to a speculative capitalism which will arrive until our days

The regulation also affected to the industrial

sector, being it the first regulated sector as early as in August 20th 1938, which is going to require a previous administrative authorization factories plants installation and modification. Such a request will be developed, just when the war is over, by the National Industry Defence and Regulation Law dated November 24th 1939. Formerly and dated October 24th, New Industries of National Interest Law had been approved. It is a legislation which was already applied under the Primo de Rivera's Dictatorship (1926-1930) and derogated under the Second Republic regime (1931-1936). After the Stabilization Plan of 1959 the industrial investments regulation was liberalized and this policy continued until 1963. But in 1966 became hard again and remained in force until its derogation in 1980. Pires (2005) for the period 1938-1963 and Buesa & Pires (2002) for the period 1963-1980 have studied with detail the effects of such legislation.

It is proved during the first period that this regulation, which was introduced without the businessmen opinion, subjected the free industry to the interest of State, which policy consisted of getting the industrialization by focussing the efforts on production goods. It was sometimes done against the businessmen but from time to time they got the "capture" of the State on those sectors which did not interfere in the targets of the Franco's regime bureaucracy, by using to it the existing legislation facing the creation of barriers to the entrance of new competitors (Pires, 2005).

On the second period the legislation goals changed and looked for a solution to the small size of the industrial facilities and reducing so the intensity of the regulations. By surprise, the most deeply regulated sectors were those with less problems of small size showed, besides the dynamics of establishments did not depend of industries installation and modification policy. In the case of the most of the industries which marketing structure was designed as oligopolistic, the regulation was deeply intense with the peculiarity that, anyway, within the group of dominant industries those belonging to the National Industry Institute were

in. It does mean that this regulating policy was linked to the direct intervention policy through the State-owned companies, which were one of the most used instruments by the Franco's regime to try to become the country in an industrial one, being one of its targets to hold under control the private enterprises (Buesa & Pires, 2002).

Just to summarize, to explain that the restrictions to the enterprises establishment, which started with the rules of 1939, could extend for more than two decades, the usual arguments related to the political ideology and the ruling class economic concepts are not enough. For instance, to Miranda (2003; 12), its endurance is also due to the individual businessmen interest already established in the market, limiting so the competence and reinforcing the monopolistic degree on many branches of the production.

Another regulation practice was the Development Plans which we already have referred to, remarking that they were based on the French indicative planning model. The work by De la Torre & García-Zúñiga (2012), has shed new light on the design of plans and its effects over the production structure. It is necessary to start remarking that, like with regard to so many works about what happened with the economic policy during the Franco's regime, such a policy has been blamed from a political -and sometimes a moral- criteria, in special whether the researchers are, let's say, liberal. It is general the opinion on the way that it could not be any other thing than perverse, so that the economic growth was possible despite and no thanks to the interventionism from the State. Well, the first thing reminded by De la Torre & García-Zúñiga is that the planning in Spain was just a late reflection of what was being tried in Western Europe since the end of the Second World War, where it was used as a general way. The difference would be that in these countries the goal was to combine growth and equity, in particular by reducing the regional imbalances, whilst the equity was never a goal in the Spanish case.

Furthermore, the adoption of the indicative

planning followed the recommendations from the international entities which advised to the technocrats of Franco's regime after the Stabilization Plan. Martín Aceña & Comín (1991; 298), remarked that the report by the International Bank for Reconstruction and Development (IBRD) dated in 1962, recommended the indicative planning as the most suitable programming model. On the other hand, De la Torre & García-Zúñiga prove that the same recommendation was included in the report made by the Organization for Economic Co-operation and Development (OECD), which even supervised the planning and provided technical assistance at Spanish Government request.

At the time of evaluate the planning results, De la Torre & García-Zúñiga remind that these type of policies need between 20 and 25 years. These researchers are focused on the impact produced by one of the planning instruments addressed to promote the industrialization, the "poles" of development. The conclusion of this research are, first of all, that such a policy deepened on a progressive way on the awarded provinces industrial growth, improving their industrial fabric, bringing such a growth at a higher level than the rest of the provinces. Nevertheless, the selection of these provinces were made more under political criteria than economic ones. Secondly, thanks to this policy the large enterprises in the country got public resources to finance their investments, resulting so a "companionship" capitalism, to which a speculative capitalism born with the black market was summed. But in some cases the supplier small/medium size companies' consolidation was boosted, the so called auxiliary company sector, amplifying the effect of the industrial district. Additionally, the development poles made the strategy of the European multi-national enterprises to penetrate in the Spanish market to be stronger, showing so a clear long-term vision²⁹.

To finish with the analysis of a few of them,

²⁹ A quite detailed analysis and not made until then about the intervention of the State in the industry and addressing the issue of the power relations, as well as their budgetary cost can be found on Chapter III by Braña, Buesa & Molero (1984).

we believe the main regulating practices during the period of the Dictatorship, it is necessary to make a reference to the foreign trade control policy, by mean of the establishment of imports quotas and licenses. And related to the foreign trade, the policy of currencies exchange placed to the Spanish Foreign Currency Institute, depending of the Ministry of Industry, taken away from the Bank of Spain, to support the industrial policy, so that only those goods seen as convenient by the Government were to be imported or exported. To it, during the first twenty years, the Peseta was systematically overvalued to difficult the exports, assuming a multiple exchange system with diverse rates depending of the goods, what once again brought a favourable treatment behaviour and a companionship. Notwithstanding, just as a mention, it is not to be forgotten the banking regulation which consolidated since the beginning of the Dictatorship the banks power and its oligopolistic character³⁰.

All these and other regulation policies remained on their most interventionist version until the controlled liberalization started in 1957 and arrives up to its top point with the Stabilization Plan, although in 60's and until the end of the Dictatorship a retreat will take place. With the restoration of the Democracy, when liberal and social-democrat economists arrive to the economic policy execution organizations, the regulation net starts to be removed. There is an extended view on the way that liberalizing is better than intervention, since the intervention was not good as it was associated to the Dictatorship. And furthermore the influence of the anti-Keynesian stream, monetarist, starts to be extended at the University's education and the economic institutions, in special the Bank of Spain, where economists trained in North American universities are coming, those in which the theory of "rational" expectations is being gestated. It is true that the oligopolistic

³⁰ A summary of the power circles during the Franco's regime, in particular the Banks can be seen on Biescas (Chapter V Biesca & Tuñón de Lara, 1980) mentioning the relevant bibliography. More recent and handling too the relevant bibliography can be found on Valdaliso (2004).

sectors, consolidated during the dictatorship, such as the electric or banking, will maintain unchanged a regulatory environment clearly favourable to their interests, obtaining what is called the “capture” of regulator. On the other hand, as we will see furtherly, the intervention from the State is going to be mostly done by mean of the indirect way, with a substantial increase of the budgetary activity.

We cannot end this section on regulatory policies without reference to the impact and influence of the accession of Spain to the European Economic Community. This influence comes not only from the original or primary law, but from a quantitatively more important form of secondary law, which has affected not only the Government of Spain, but also the Autonomous Communities. On economic issues, the main exponent of this influence is the incorporation of the Maastricht Treaty, which comes out of the period under study, as well as those mandates referring to the financial system, to services and freedom of establishment, as well as to the compliance with competition rules related to the completion of the internal market.

2.2. The direct intervention. The role of the State-owned enterprise.

The second type of the policies executed in Spain, since the beginning of the Dictatorship until the first days of the Democracy, was done by mean of a very important direct intervention with the goal to get the industrialization. It must be remarked that after the Second World War the establishment of a managerial public sector is boosted in the whole Europe, but nevertheless the intervention was addressed to activities under difficulties (subsidiarity purpose) and to those less attractive sectors for the private initiative, with an influence on the population’s level of life (complementarity purpose).

In a work like this one, with limited space, it will be possible only to give a superficial overview of the relevancy and transcendence of the direct intervention from the State via the State-owned enterprise, being a theme around which there is an abundant bibliography, get-

ting back to its background and origins with the beginning of the capitalist relationships domination in Spain.

Within the period subject to this study, the most relevant part of the State-owned enterprises has its origin on the establishment of the National Industry Institute (INI) dated September 25th 1941 with the target, as described in the legal text preamble, “to give form and execution to the great industrial resurgence of our Nation which, by stimulating the private industry, boost the institution of new production sources and the extension of the existing ones, self-creating those that the interest of the National defence or the exigencies of our Economy might require”. It has been much written about the in-spired base of this law on the one establishing the Italian IRI under the fascist Government in that country. The truth is that there was a former experience of direct intervention from the State in Spain what, on the other hand, fulfilled the Spanish industrial bourgeoisie exigencies. Thus, it is not conceived as an instrument to State the Economy substituting so the private initiative, but as complement of them (Braña & Buesa, 1981; 22). It responds to the vital need of revitalize the National Economy and the leaders remark since the beginning that it looks for hold and boost a close cooperation with the private initiative, by mean of investments and joint activities within mixed companies, foreseeing where appropriate the privatizing of the companies. Its creation is therefore framed in the objective of import substitution industrialization³¹.

It is true that INI will not limit itself to the establishment of new companies to promote directly the production and, sometimes, to substitute the private initiative, as it even makes a competitive sector which contributed to give solutions to the Spanish economy constrictions.

³¹ This is acknowledged by Martín Aceña and Comín (1990; 30), who write one of the most complete histories of INI, arriving until 1990. In addition, as Braña and Buesa (1981; 21) remember, similar institutions are to be created in Latin America in the 1940s, in the context of external vacuum that favours the processes of import substitution industrialization

It is important to note that the direct intervention of the State, during the Dictatorship and later, will not be confined to the INI, since throughout the period there will be other holding companies, attached to various ministries, such as the Treasury, Agriculture, Public Works, on which several companies depend. There has also been a public banking system, after nationalizing several credit institutions in 1962 (including the Bank of Spain, until then a private entity), which will disappear in 1997, with the privatization of the last entity³². To give two very significant examples, the first is the railway network which was nationalized in 1941 and RENFE was established³³. The other one is the National Telephone Company of Spain, a private company established in 1924, with a majority of North American capital (ITT), which is granted the monopoly of telephony and it is an atypical case, since in 1945 it becomes controlled by the State when it acquired 79.6% of the shares owned by ITT, the rest being held by private individuals, since it had been listed on the Stock Exchange since its inception. To these cases must be added two monopolies, tobacco and oil, which are to be managed by private companies, although under the control of the State³⁴.

And already under restored Democracy a broad Regional-owned enterprise sector (Autonomous Communities) will appear, as we are going to see, apart from the existing Provinces and Local Councils net of public enterprises.

Focusing now on the INI, in a first stage, which can be dated between 1951 and 1963, it will

³² Only the Official Credit Institute remains, a public financial institution that grants long-term loans for investment projects, but does not have branches.

³³ It will group all private companies with Iberian railroad track, greater than the European width. In the dictatorship of Primo de Rivera, in 1926 an organization was created, EFE, that assumed the management of the private lines that had passed to the State after its bankruptcy. With the creation of RENFE this company managed to manage only the lines of European width (narrow track). In 1965 it is renamed as FEVE, an Autonomous Organism that will manage the entire narrow railroad track network, assuming all other remaining narrow track lines, following its bankruptcy at the beginning of that decade.

³⁴ The Tobacco Leasing Company (CAT) and the Petrol Monopoly Leasing Company (CAMPSA).

have a prominent role, making the most ambitious projects and establishing the main companies, which will last until their dismantling in the 90's. Starting in the 60's, it will also become in what has been called a "hospital" of companies, by playing a subsidiary role, at the service of private initiative, absorbing and nationalizing companies with problems and socializing their losses. In 1974, a new stage will be opened, in which an attempt is made to return to INI a greater initiative, introducing business management criteria. But between 1975 and 1979, in spite of the introduction of business management, state-owned enterprises are immersed in a generalized crisis, badly affected by the economic crisis, predominating their role as hospital of business, trying to use them for industrial and anti-cyclical policy purposes in the context of the economic crisis, including the fight against unemployment³⁵. Between 1979 and 1983, a forward flight occurred, taking on new private companies in crisis and entering new activities without adapting their productive structures. In this period, the INI was cut off from the hydrocarbons sector, as the National Institute of Hydrocarbons is established in 1981.

Coinciding with the beginning of the policy of industrial conversion, between 1983 and 1995 a process of restructuring and financial reorganization of the State-owned enterprise began, with privatizations or "disinvestments", trying to accentuate the competitive purpose of the INI. In this sense, in 1988 a legal modification takes place that will redefine the functions of the INI, introducing the criteria of profitability and efficiency in the allocation of resources. This process will culminate in the following years, with the arrival of the Popular Party (PP) in 1996, until the almost complete disappearance of the State-owned companies dependent from the Central Government, with a privatization based fundamentally on ideological criteria more than on economic ones.

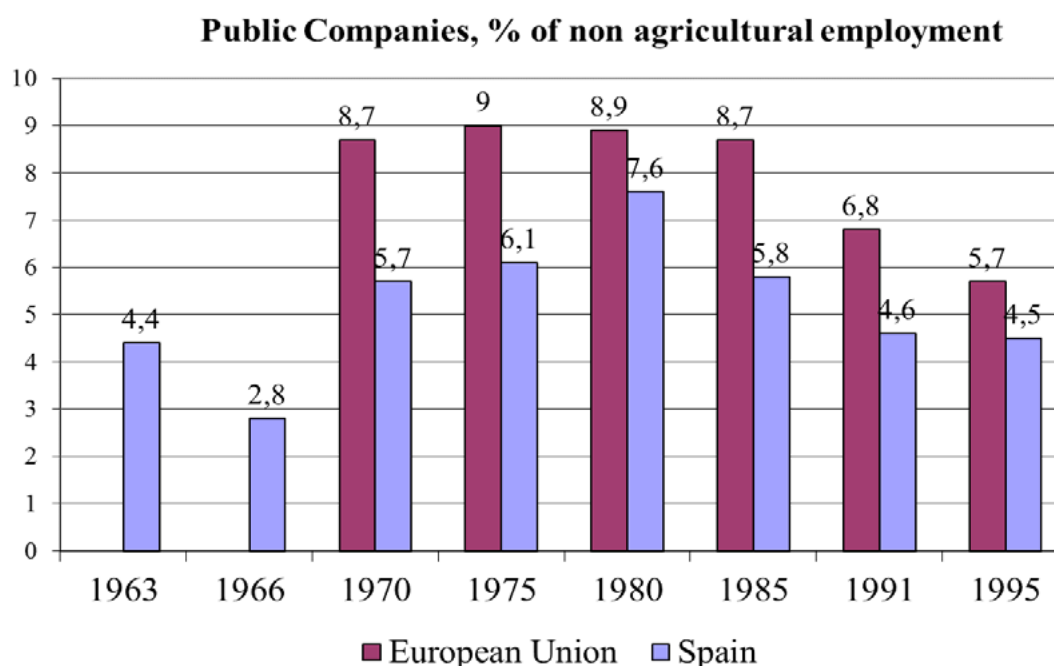
³⁵ It should be noted that the Spanish Constitution of 1978 includes the possibility of public entrepreneurship (Article 128.2), which is also envisaged for the Autonomous Communities (Art. 148.1) and for Local Corporations.

It is not possible to give a complete picture of the importance of the State-owned enterprise sector in Spain for the entire period of this study. Until 1989, only partial data exist, since it is not until that year that the Ministry of Finance prepares and publishes the inventory and accounts of such a sector. For this reason and in what it follows below, we will give some information that can give an idea of the direct activity of the State in the production, not including in the same the public financial sector. Figure 10 shows the importance of State-owned enterprises in Spain in comparison with the European Union, taking as an indicator the participation in non-agricultural employment. It does strike that throughout the period covered by the data, the State-owned enterprise sector is smaller in Spain than in Europe, although the temporal evolution is almost the same. The difference is that the reduction of its size starts earlier in Spain, by the middle of 80's.

Figure 11 shows the INI investment activity between 1946 and 1989, putting it in relation to the total investment of the Central Government and with the Gross Capital Formation. The enormous importance of INI's investment activity can be seen, with two peaks in 1965 and 1980 and not falling until the mid-1980s, when the restructuring process began. It is also significant the participation in the Gross Formation of Capital, with a parallel evolution to that of the participation in the investment.

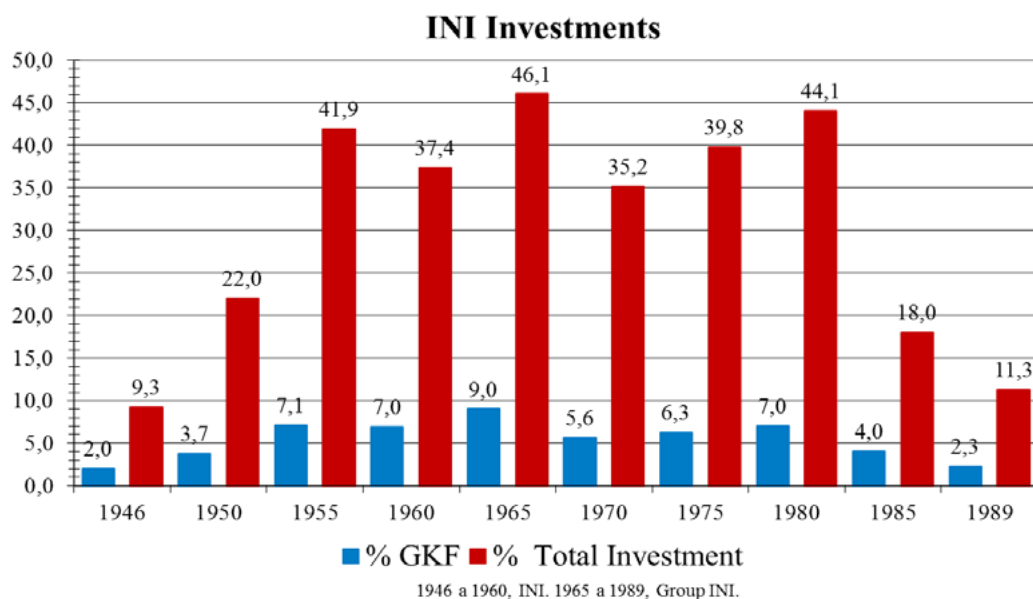
Figure 12 shows the sectorial importance of INI-Holding activity in the 50's and 60's; and since 1963 of the INI-Group of companies, highlighting the importance of the electricity and gas sector. It should be noted that participation in the oil sector disappears in the 80's, when the new holding company, the National Hydrocarbons Institute (INH) was established, to which all oil companies are transferred.

Figure 10



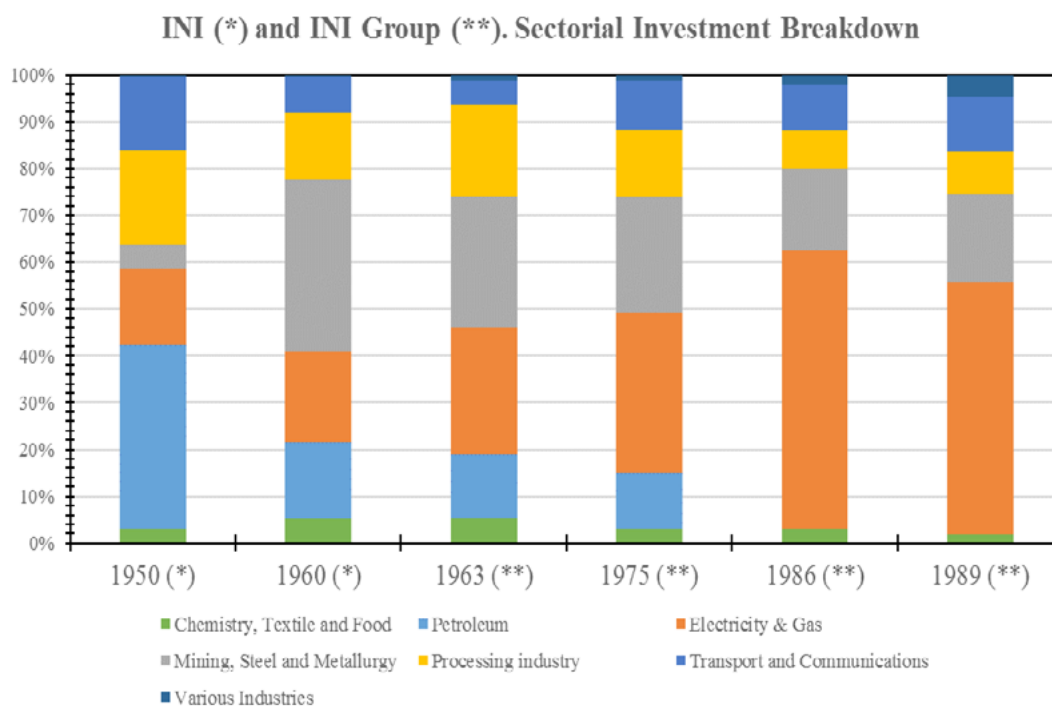
Source: Comín and Díaz (2004; 184 and 267) and own elaboration.

Figure 11



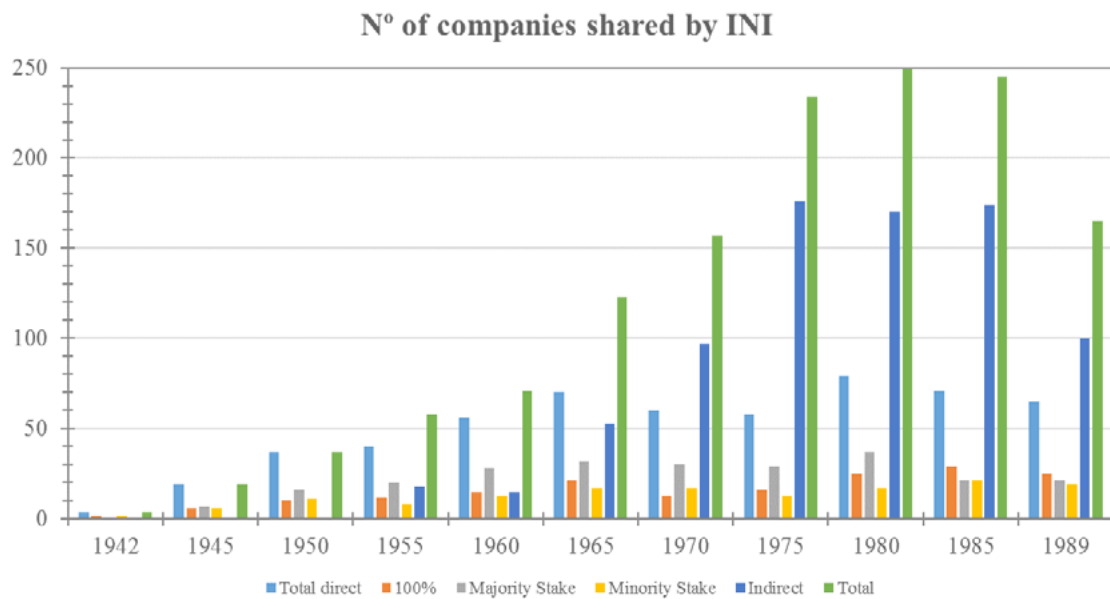
Source: Martín Aceña y Comín (1991) and own ealboration.

Figure 12



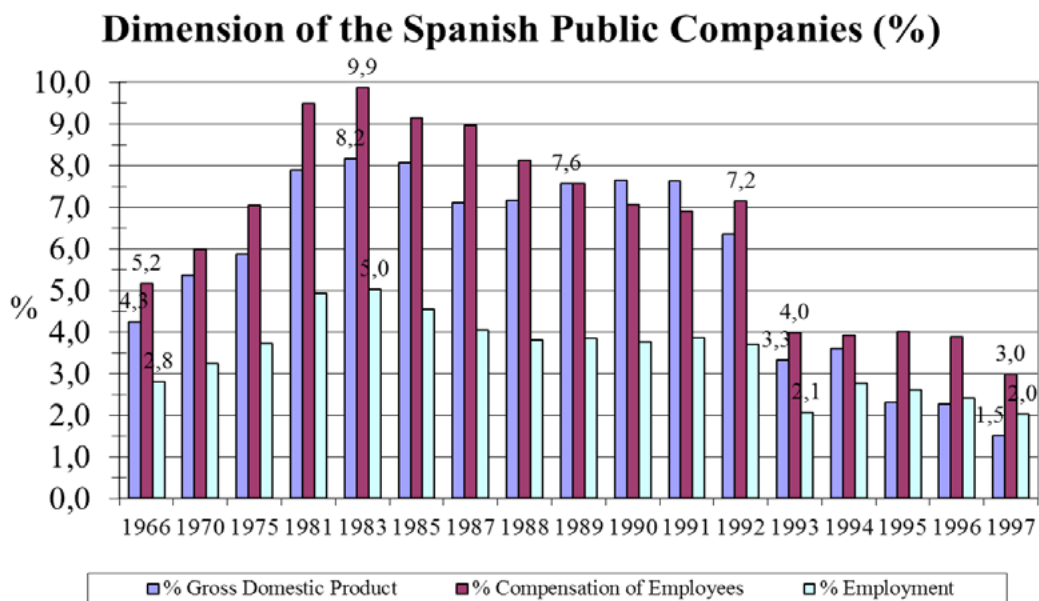
Source: Martín Aceña y Comín (1991; 47-48) and own elaboration.

Figure 13



Source: Martín Aceña y Comín (1991; 35. Cuadro 1) and own elaboration.

Figure 14



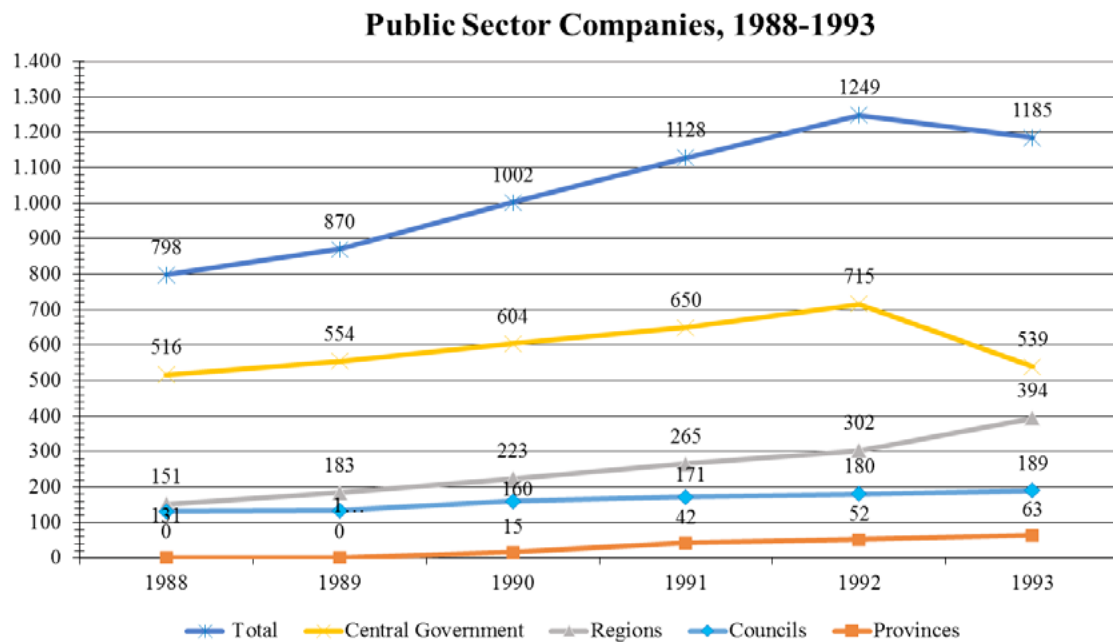
Source: “El sector público empresarial”, IGAE, varios años, Contabilidad Nacional and own elaboration.

Figure 13 shows the number of companies on which INI has participated between 1942 and 1989, with a breakdown of their capital shareholding: total, majority, minority and indirect. It can be verified that from the mid-50's onwards there are many more companies in which it participated indirectly (given as there is no data for 1980, we have assumed that the number of companies is similar to that of five years earlier). In the period as a whole, INI

shared the 100% in 178 companies, of which between 1942 and 1961, 18 corresponded to its role as “business hospital”, while between 1971 and 1983 the companies to which the so-called “socialization of losses” took place were 27, having to absorb private companies in bankruptcy³⁶.

³⁶ Martín Aceña y Comín (1991): p. 145, table 16, p. 508; table 19 and data provided in page 475.

Figure 15



Source: Intervención General de la Administración del Estado and own elaboration.

Figure 14 shows the importance of the entire public business sector since, in 1966, they began to prepare their accounts in terms of National Accounts. Three indicators have been applied: the share of gross value added in GDP, wages and salaries and employment. In all three cases, participation was relevant and growing until the mid-1980s, reflecting the loss of importance since 1993, when the privatization process is at its peak.

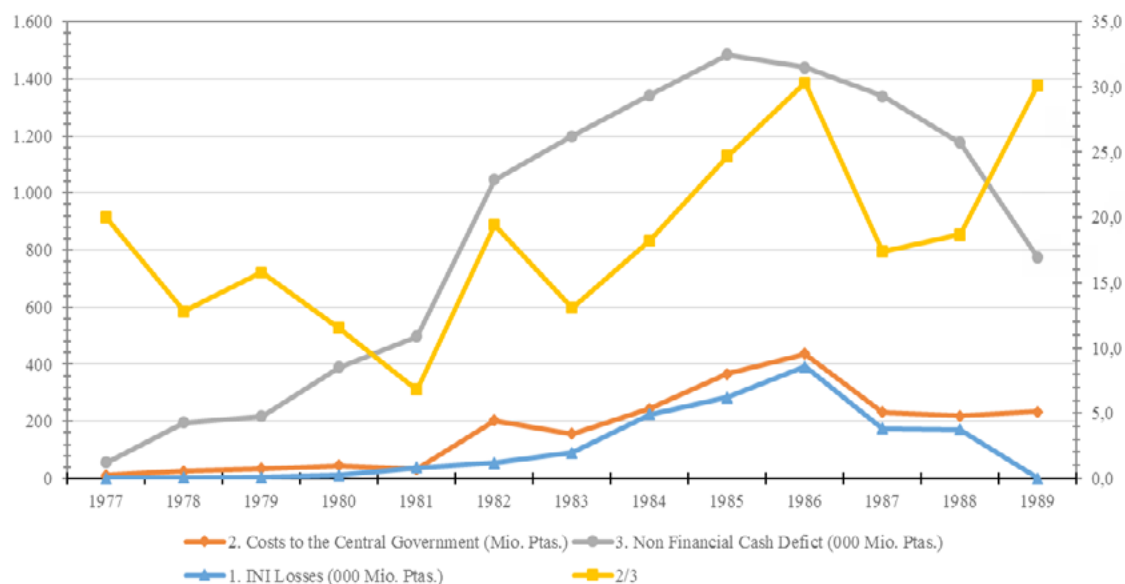
And figure 15 shows the number of State-owned companies of all the General Government institutions, disaggregating the investees by the Central Government, the Autonomous Communities, the Provinces and the city councils. It can be verified that, when from 1992 onwards the Central Government begins to detach itself from State-owned companies, that is when companies belonging to the Autonomous Communities and the City Councils begin to take importance, a process that will continue intensively until today. This is a peculiar process of decentralization, which has been called the “flight of administrative law”, the flight of the Budget, which implies loss of control of the representatives of citizens on regional and local public activity, given that these companies are ruled by private law (Pascual, 2010).

As has been pointed out, since the mid-1980s, with the arrival of the PSOE government, the process of dismantling the public business sector begins. Although there is a relevant episode, the expropriation of a holding company, Rumasa, which was subsequently privatized, not without serious irregularities. The policy of PSOE’s governments consisted, first of all, in a process of financial consolidation, reconversion and rationalization. The reorganization of the companies was continued through the formation of sectorial groups within the main holding companies. The cost of these processes was substantial, as shown in figure 16, which refers exclusively to INI companies. Such a cost meant 30.2% of the non-financial deficit in 1989, in terms of cash, related to the Central Government. And 165,000 million pesetas must be added to it due to the dismissal of 102,000 workers³⁷.

³⁷ An assessment of the total cost of industrial reconversion and its consequences, in Buesa and Molero (1998; 284 et seq.).

Figure 16

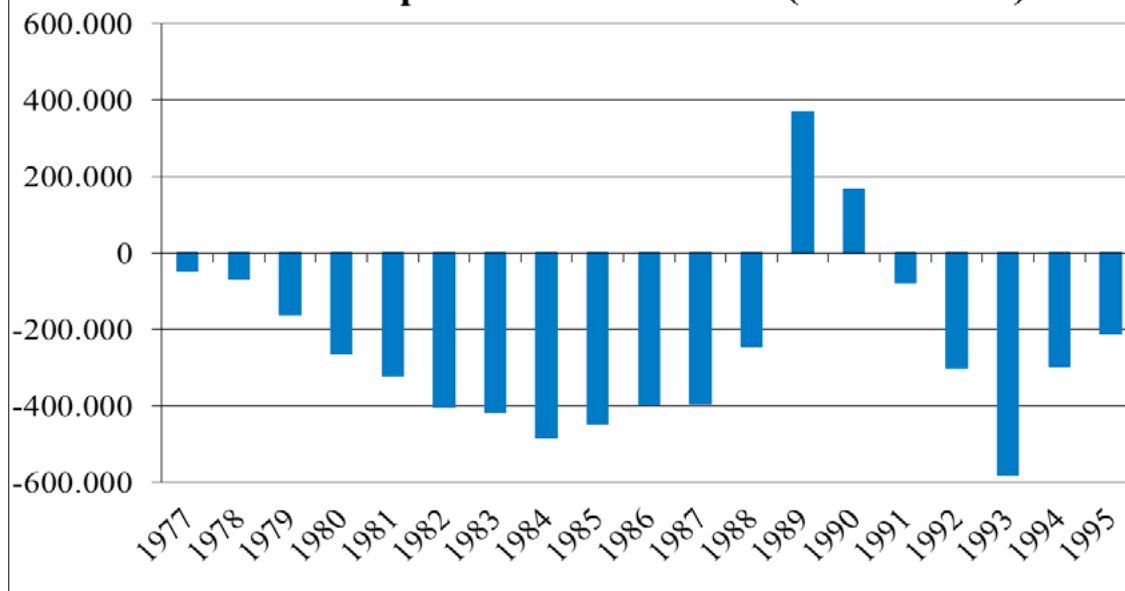
The cost of INI Restructuration



Source: Martín Aceña y Comín (1991; p. 595, table 56; and p. 597, table 58).

Figure 17

Public Companies Profits/Losses (Mio. Pesetas)



Source: Myro (1993); IGAE, "El sector público empresarial" (several years) and own elaboration.

After a long period of accumulated losses, specially of the companies belonging to the INI, there were only two years of back to profits. For due to the crisis of the 90's, the accounts of State-owned companies resented again, as shown on figure 17. Hence, since then the emphasis was placed on the liquidation of companies of doubtful viability and on the privatization of the profitable ones or of those that, by that way, could come to have benefits. "Privatization thus became the natural outcome of a rationalizing policy of the State-owned sector in which the main objective was to ensure that the companies integrated in it competed on an equal footing with the private sector" (Buesa and Molero, 1998; 256). By stripping public enterprises of any justification based on social or public interest objectives, among them as instruments of industrial policy, insisting that they should behave and be evaluated under the same criteria as private companies, profitability and profits, it ended up questioning their permanence within the State-owned sector.

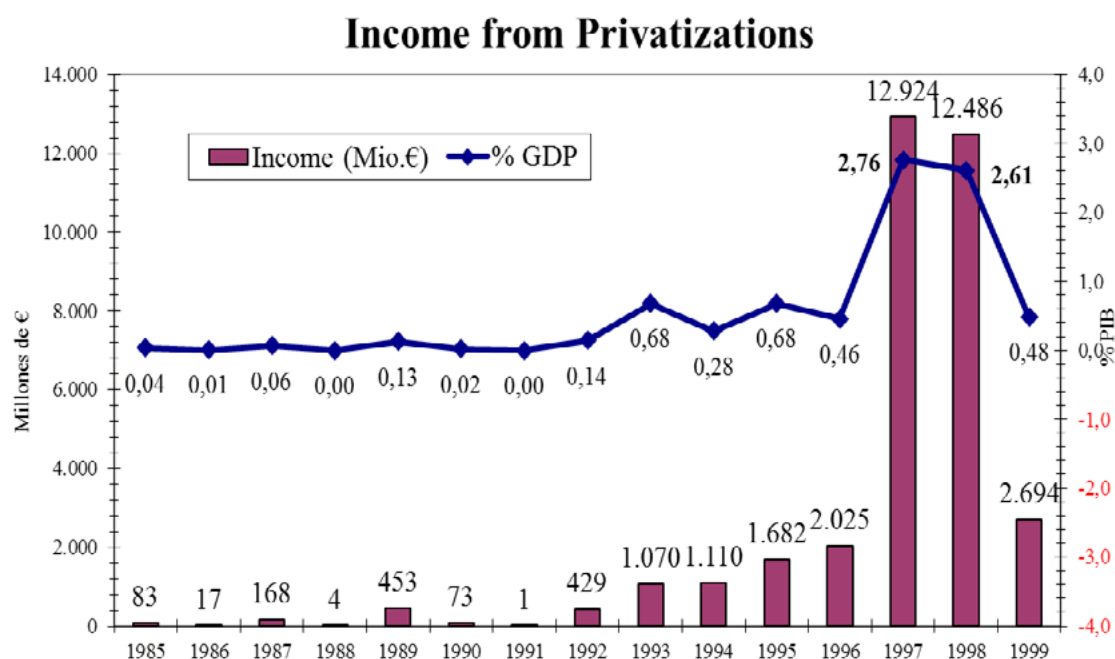
Once the privatization process started, as shown on figure 18, the obtained revenue was

scarce. Only with the policy of massive privatization executed by the Popular Party government in 1996 and for a short period of time, did significant revenues begin to emerge, although during the first half of the 90's the result of the privatizations was a decline of the share of public companies in the Stock Market, which came down from 16.65% in 1992 to 10.87% in 1996, continuing the decline in subsequent years.

2.3. Indirect intervention. The role of the public administration budget.

Indirect intervention through budgetary activity is the third pillar on which State activity is based. In the case of Spain this form of intervention will be minimal for a good part of the dictatorship, but always within a total magnitude of "underdeveloped" country, which is linked to a regressive tax system and very low fiscal pressure, rotten by the fraud. Prados (1996, 366-367) has pointed out that one of the differential characteristics of Spain with respect to Western Europe in economic

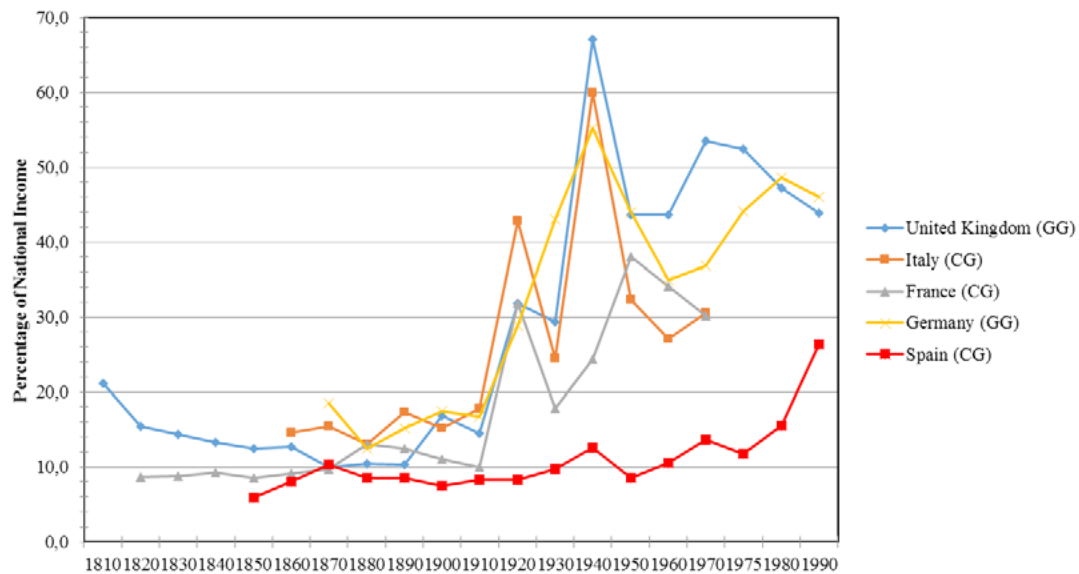
Figure 18



Source: 1985-1994. Ortiz Villajos (2003); 1995-1999, Consejo Consultivo de Privatizaciones (2014); and own elaboration.

Figure 19

Public expenditures. A historical perspective



Source: Comín (1996a) and own elaboration.

policy is the application of a pre-Keynesian fiscal policy: “In fact, Franco’s cabinets kept orthodox ideas about a balanced Budget and the control of public expenditure (which was achieved in the 1950’s), while sticking to economic nationalism and intervention. In fact, neither full employment nor income redistribution policies were enforced in the post-Civil War era. Under autarchy, the government did not contribute to raising effective demand by establishing unemployment benefits, no progressive income tax was applied, and automatic stabilizers were not introduced until the 50’s. Government budget expenditure on public works, education, health, housing and social insurance was of little significance in the post-Civil War years”.

Comín (1996) makes reference to regulation as the affordable instrument for the poor Treasuries, mainly due to the rigidity, scarcity, of public revenues. Thus, there would be an inverse relationship between regulation and indirect intervention by the State, through public revenue and expenditure policies, the Public Treasury. For the analysis of these policies, there is an enormous amount of studies and reports, which have begun to be published since the mid-1950s and which are impossible

to account for in this essay ³⁸.

Figure 19 shows the evolution in the long term of Spain’s public expenditure compared to Germany, Italy, France and the United Kingdom. It is quite clear that the State in Spain corresponds to an “underdeveloped” peripheral economy, and that it has only begun to approach the central countries since 1975, and there is still a great distance in that year.

Nevertheless, we will start by analysing **public revenues**. Figure 20 shows the tax collection in Spain from 1940 to 1995, both for the Central Government (CG) and for General Government (GG). There is a slight increase in the Central Government’s fiscal ratio (Tax / GDP) after the civil war, related to war delays and then falls to a low of 8.46 per cent in 1951. With a small rebound in 1965, after a fiscal reform in 1964, it is not until 1975 that revenue collection begins to grow, particularly following the fiscal reform that accompanies from its begin-

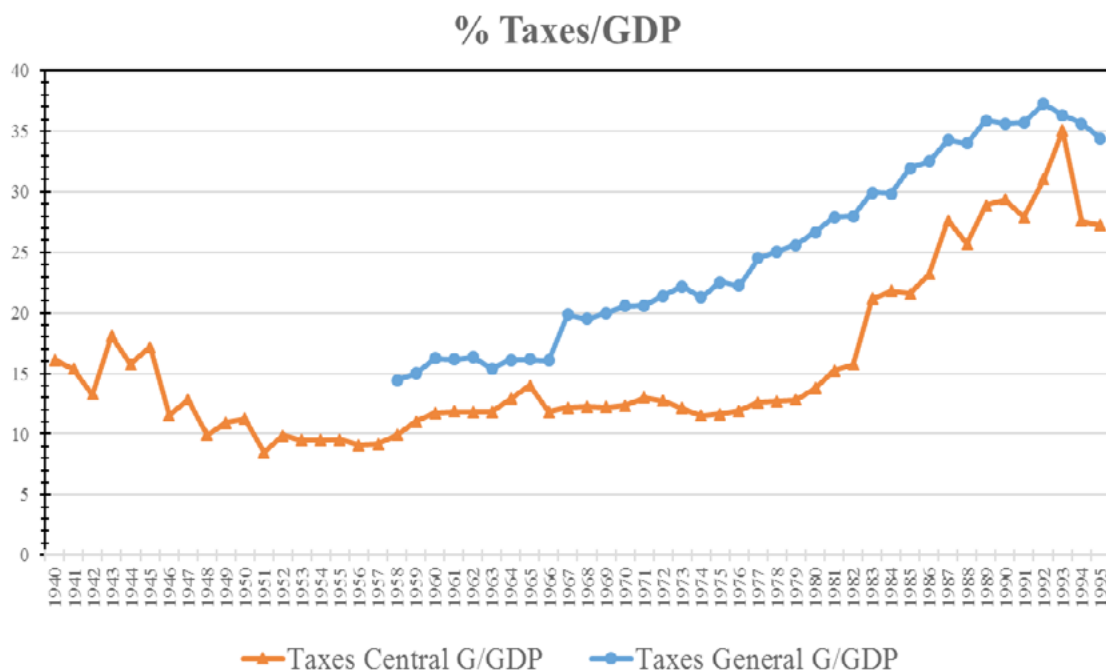
³⁸ The best and most detailed analysis of the Public Finance of franquism and democracy periods, in numerous works, is Francisco Comín and his collaborators, especially in Comín (1996b), who studies, in a historical perspective, the various public policies and not only the public budget. For the period 1936-1959 can be consulted, being his most recent work, Comín and Martorell (2013).

nings to the recovery of democracy. If we look at the GG tax collection, from 1958 to 1967 it remains stagnant and only begins to increase continuously once the Basic Social Security Act comes into force in 1963, because it includes since then the social contributions.

Throughout the period four tax reforms have taken place: in 1940, in 1957, in 1964 and in 1977-79. The first three, during the dictatorship, design a tax system based on real direct taxation (or product, which does not personalize the tax), but above all on indirect taxation on consumption, tax monopolies and foreign trade revenue (the customs tariff). An inelastic fiscal system to the evolution of national income, regressive and with a high level of fraud and tax avoidance, which denied the redistributive function of income and wealth, completely away from the international trends of the countries of the centre. And this in spite of the attempts of the Falangist economists in the 1950s to personalize direct taxes, attempts that clashed head-on with the ideology and interests of the dictator himself and the ruling classes.

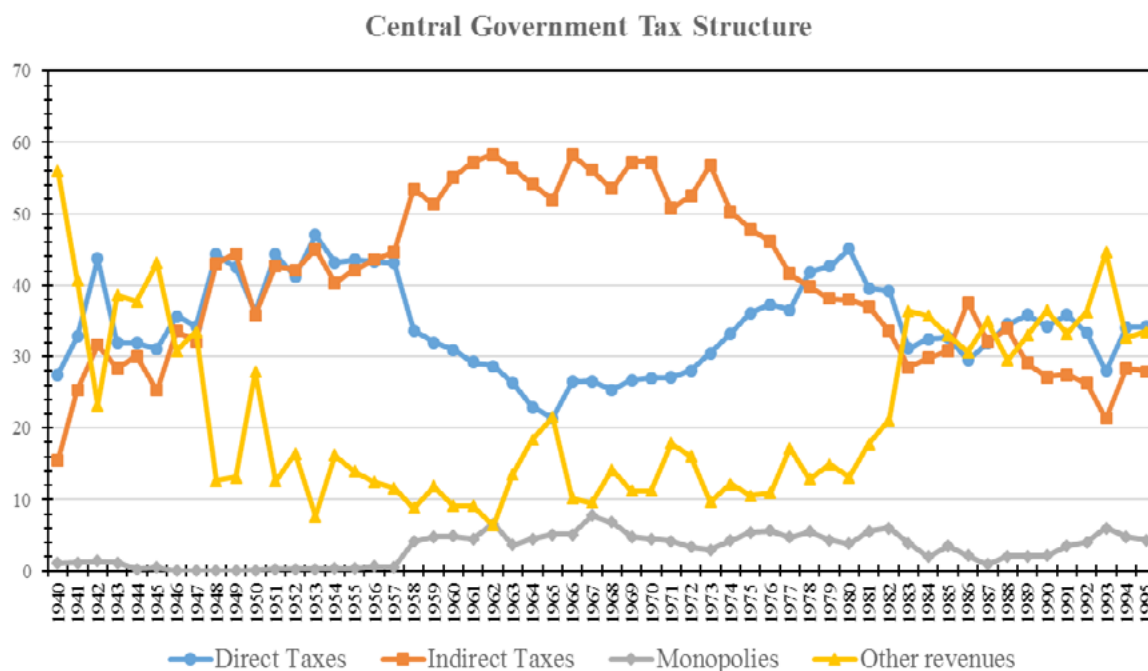
Figure 21 shows the revenue structure of the Central Government, showing the preponderance of indirect taxes, particularly between 1957 and 1977. Figure 22 shows the structure of revenues for the General Government, with social contributions being in the first place because of its tax collection importance.

Figure 20



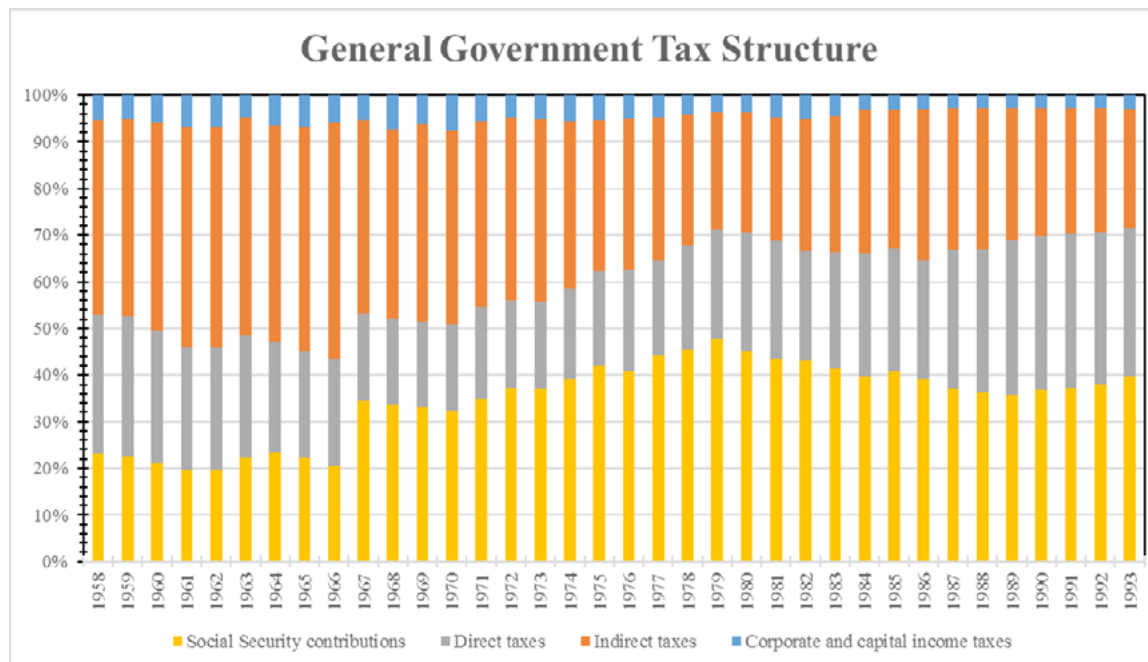
Source: Comín y Díaz (2005) and own elaboration.

Figure 21



Source: Comín y Díaz (2005; table 12.9) and own elaboration.

Figure 22

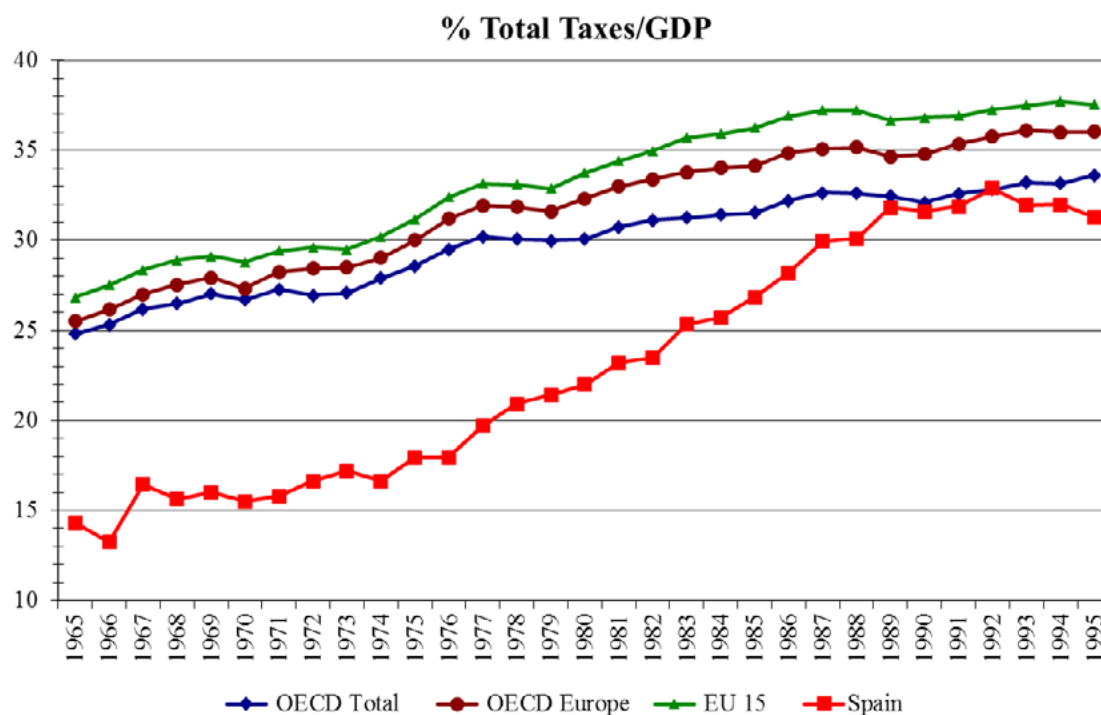


Source: Comín y Díaz (2005; table 12.26) and own elaboration.

As we have pointed out, this is a tax system which, in terms of collecting capacity, will be far away from the international environment. Figure 23 depicts that, despite sustained growth

in revenues since the recovery of democracy, we have only managed to achieve the average fiscal pressure of all the OECD countries, from which it must be reminded that there are coun-

Figure 23



Source: OECD Revenue Statistics and own elaboration.

tries with a very low fiscal pressure, as would be the case in Chile, Mexico, Turkey, but also in the United States. And, despite the stabilization of the fiscal pressure since the mid-1980s in European countries and in the European Union of 15, Spain does not manage to reach the average of these areas by starting, on the contrary, a reduction of tax revenues since the crisis of 1993, a decline that does not occur in our environment.

The fiscal reform is undertaken with the recovery of democracy³⁹, when some of those young falangists from the 50's who participated since the final years of the dictatorship, will follow the tax model of the countries of Western Europe. Since the approval of the Law on Urgent Measures for Fiscal Reform, November 14th 1977, until the approval of the new tax figures, several years must pass, as the complete package proposed by the UCD Government will be approved just in 1978, the Personal Income Tax Law (IRPF) and the Corporate Income Tax

Law, having to overcome from the beginning the strong opposition of business associations and sectors of the government itself and its political party. And even though the law on urgent measures had already fallen into the trap of granting a tax amnesty, under the euphemism of "voluntary regularization", one more in the history of tax reforms in Spain, it will not be able to reduce fraud, by blocking measures for that purpose. Table 2, taken from the only official report that attempted to provide an estimate of IRPF fraud, gives an idea of its magnitude and characteristics. A fraud what has reached our days as one of the most characteristic features of the Spanish tax system⁴⁰.

³⁹ For fiscal reform in the period of democracy, Braña (2008 and 2010a) and Pan-Montojo (2015) can be consulted.

⁴⁰ A recent evaluation of the fraud in the income, that includes the year 1982, is the one of Torregrosa (2015b). The work makes a fairly comprehensive review of existing estimates. To make her own estimation, the author uses a very sophisticated econometric methodology, with many and debatable assumptions and with a very low explanatory power which, in our opinion, raises doubts as to whether the numbers are correct, even knowing that the fraud existed and still exists. In any case, Torregrosa's work achieves very high underreporting rates for incomes other than salaried work.

Table 2
Levels of compliance with personal income tax
(Thousands of units and percentages of magnitudes declared with respect to economic magnitudes)

	1979	1980	1981	1982	1983	1984	1985	1986
Units required to declare	9,971.0	10,400.5	10,336.4	10,786.1	9,599.4	10,116.5	10,520.6	10,959.3
% Tax returns forms	52.20	56.90	56.17	56.10	59.37	58.71	60.95	64.09
% Total income	42.90	47.4	48.92	49.57	50.83	50.52	51.95	55.08
% Income from labour	54.00	62.07	63.42	64.76	66.63	66.66	68.88	71.28
% Other incomes	22.34	24.34	24.56	25.20	23.41	24.60	26.15	30.36

Source: Lagares (1991) and own elaboration.

There are also estimates of fraud in other taxes, to which we will refer, because of their relevance, to those of Value Added Tax. In one of them (Gómez de Enterría, Melis and Romero, 1998), referring to the years 1990 to 1994, fraud is around 28%, which would be the difference between the theoretical collection estimated according to National Accounts and actual collection.

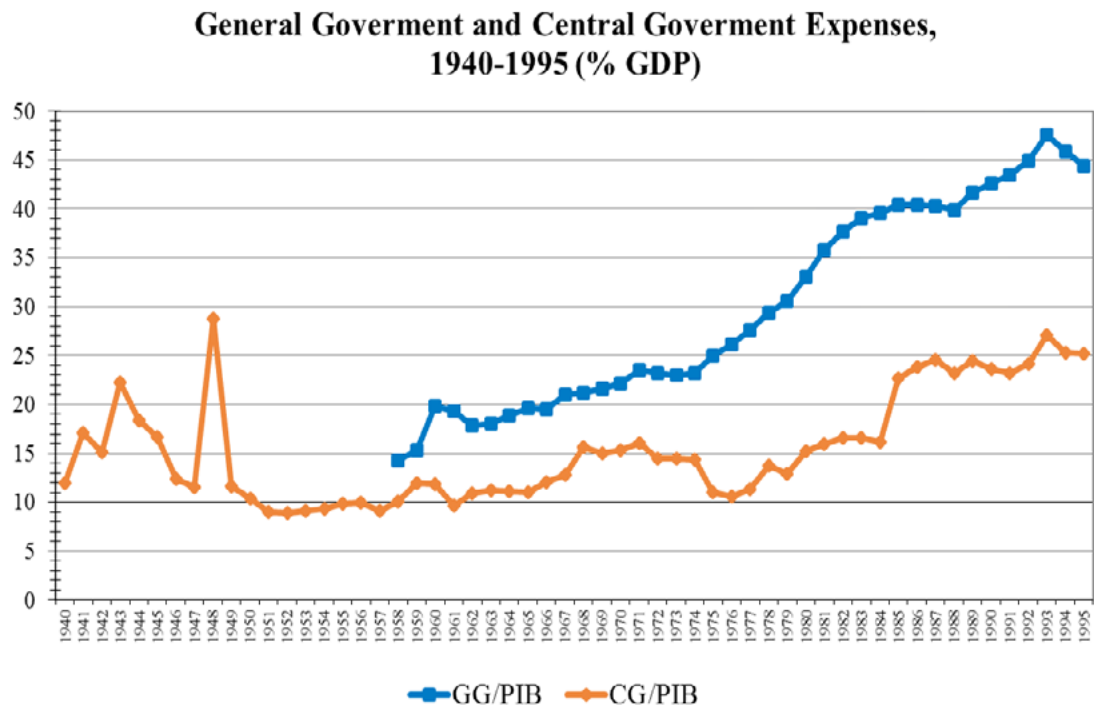
From 1982 onwards, the new neo-liberal currents, which have led to the reduction of the tax burden, have been brought into Spain by the academy and the economic circles opposed to the tax reform, because of their supposed harmful effects on the accumulation of capital, savings and employment, refusing to use the tax system for redistributive purposes⁴¹. All of this framed in the so-called theory of the failures of the public sector and on the return to the requirement of the budgetary balance. Is very striking that, at the forefront of these proposals, there will be some of those who have

so fiercely defended and designed the democracy fiscal reform. To those opinions, whose media apogee will occur with the beginning of the decade of the 90, the economic leaders of the PSOE will end up joining, beginning to blur the structure of the IRPF. Although with the entrance into the European Economic Community the Value Added Tax will be approved and implemented in 1991, as well as the Law on the Net Worth Tax will finally be approved too (although the corporate patrimony will remain off the tax). And all this without forgetting the complexity that will introduce the process of fiscal decentralization, on which the Autonomous Communities will increasingly have tax power, which will lead to a race to tax competition downwards.

Now, has the fiscal reform of democracy succeeded in reducing the existing inequality related to the distribution of market income before taxation? The results of Torregrosa's work (2015a) indicate that the tax system worsened the distribution of income. In 1970, with the fiscal system of the dictatorship, the Gini index increased by 1.73 percentage points (from 37.92 to 41.36) after applying taxes, in 1982 increased by 2.57 points (from 41, 94 to 44.51) and in 1990 increased by 6.94 points (from 42.23 to 49.17). And this is because the tax system was already regressive in 1970, the regressivity declined slightly in 1982, but in-

⁴¹ One of the most striking proposals, because there is a lie plainly, is that the tax is simpler the fewer the number of brackets of the tax rate structure. Except that the tax is of a single type, the linear tax, gives equal to have two that two thousand brackets, the taxpayer will always have to do the same operations to calculate its payment. But the difference is that the fewer the brackets the worse the tax rate is adjusted to the progressivity, treating the same, with the same tax rate, taxpayers who may have very different income levels.

Figure 24



Source: Comín y Díaz (2005) and own elaboration.

creased again in 1990, although without reaching the magnitude of 1970, showing the results of the fiscal counter-revolution we have done reference above. These results do not take into account fiscal fraud, which would increase the regressivity, since fraud is known to be higher in the higher income strata, in capital income and in self-employed entrepreneurs (Torregrosa; 2015b).

With regard to **public expenditure**, Comín (1996b) has described what happens after the victory of the rebels in the civil war as the return to the police state, because, as we have seen, the intervention of the State will take place by mean of regulation and public corporations. Figure 24 shows the evolution of central government expenditures throughout the period covered by this essay, as well as the expenditures of General Government since the year in which their accounts begin to be drawn up.

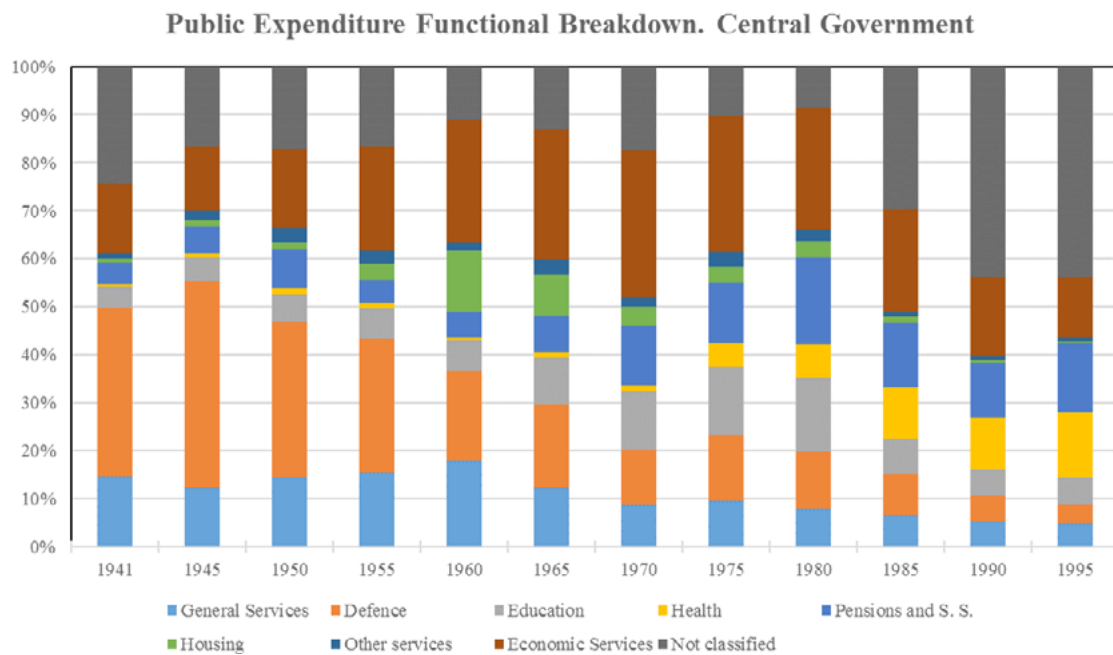
After the increase in public expenditures in specific years of the 40's, an increase derived from the cancellation of civil war spending, public expenditures in relation to GDP will de-

crease with respect to the levels of the 2nd Republic. And, in the case of the Central Government, it will only increase in the second half of the 60s, to decrease again up to the recovery of democracy, when the Welfare State begins to be built. With regard to the expenditure of the General Government, of which there is data only from 1958, will not stop increasing, with the incorporation of Social Security benefits, with a strong momentum under democracy.

The best way to know the destination of public expenditure is to use the functional classification, which is shown in figure 25 for Central Government, although is quite imperfect by the amount of unclassified expenses. The importance of defence expenditures⁴², followed by expenditures on economic services, stands out until the 1970s. The expenses related to the Welfare State, health and pensions, as well as to education, did not acquire importance until the 70's.

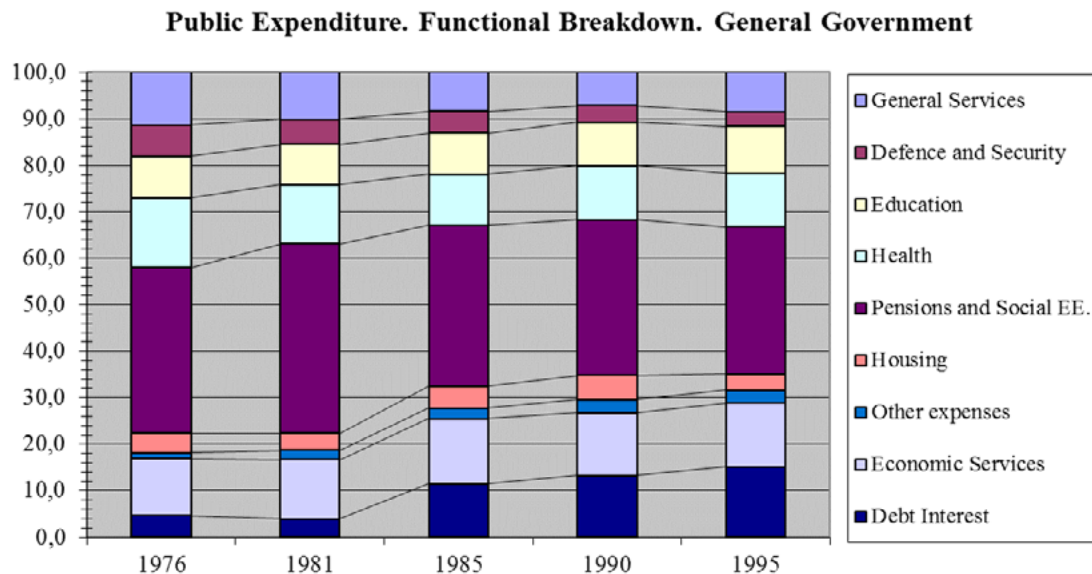
⁴² According to Catalán (1994; 378), in 1950 headed the expenditure in defence in Europe, and in 1957 ranked third after France and Greece.

Figure 25



Source: Comín y Díaz (2005; table 12.18) and own elaboration.

Figure 26



Source: Argimón et alia (1999) and own elaboration.

For the General Government institutions, the functional classification of public expenditure only has been available since 1976, as shown in figure 26, which includes the growing activity in the area of health and education of the Autonomous Communities. The importance of pension expenditures in democracy, which absorbs more than a third of the total, is confirmed. By importance it follows the expendi-

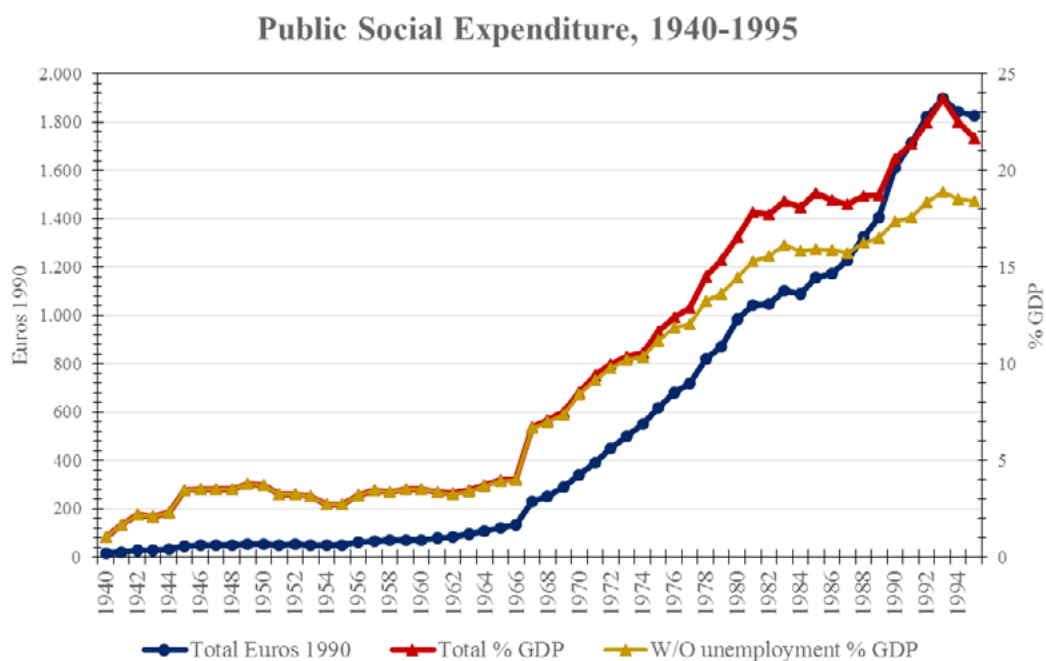
tures on economic services, health and education. This demonstrates the change which occurs in democracy in the modalities of intervention of the State. From a regulatory state and with a strong presence of direct intervention in production, there is a gradual shift to a State based on policies of indirect intervention through public expenditure, on which the construction of a modest Welfare State becomes relevant.

And we say modest, because despite the effort made and on the same way of what happens with the tax system, Spain never reaches the Central Europe countries –the European Union- levels of benefits. The expenditure on social benefits, which in the mid-1960s did not reach 60% of the European standard, in the mid-1990s will be below 75% of that European standard, with a difference of about six percentage points in terms of GDP. Figure 27 shows the evolution of social benefits expenditure along the whole period, both with respect to GDP and per person in real terms, reproducing the pattern that we have already been highlighting: its practice nonexistence until the mid-60s and the push with the recovery of democracy.

Nevertheless, since 1976 the expenses in unemployment benefits are going to take a growing part of the total public social expenditure, with a maximum of 20.4% in 1993, showing the data represented in Figure 27 that the growth of social spending related to the Welfare State during the PSOE governments is much smaller than is said, only 3.34 p.p. between 1982 and 1993.

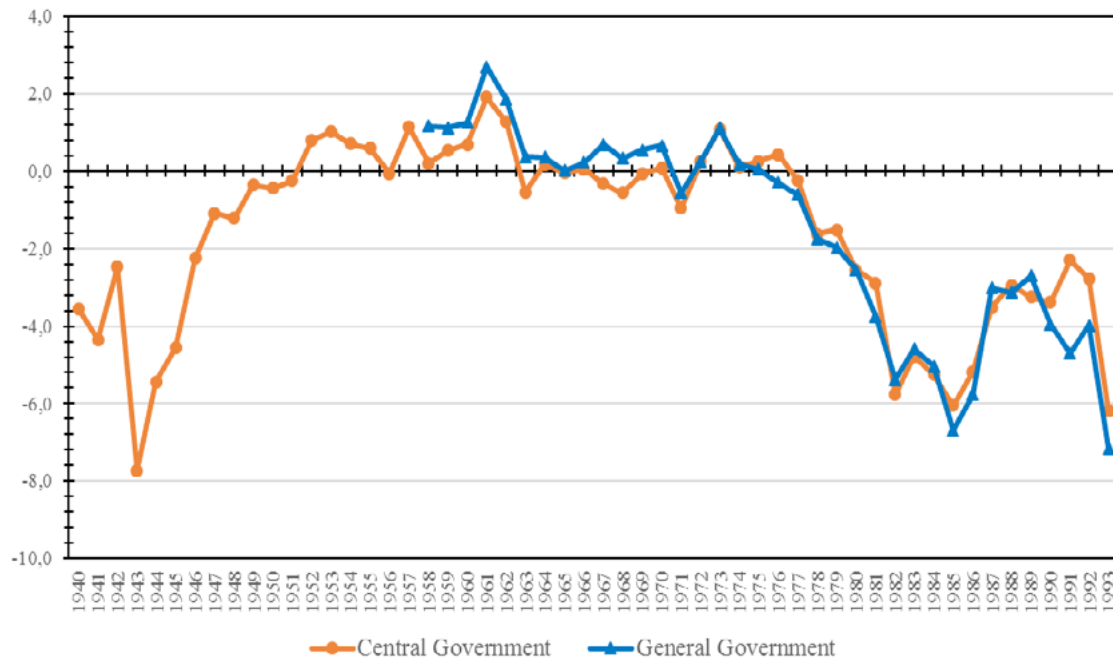
The overview on the State's indirect intervention would be incomplete unless a reference to the balance of incomes and expenditures, to the **fiscal balance**, were not made. From its beginnings the ministers of finance were "liberals" convinced of the "holy fear of the deficit", as doctrine and strategy proposed already in 1905 by whom was then the Minister of Finance, Jose Echegaray, a doctrine that with other forms but the same background will be again in force since 1993. Was this strategy implemented in practice? Rather not. Figure 28 shows the evolution of the fiscal balance (net lending or net borrowing in terms of National Accounts) for both Central Government and General Government (since 1958). It is surprising that until 1952 there will be no surplus in the State's accounts, since that year there is a period of relative stability, with small deficits and surpluses, which goes back to 1976, turning to the deficit, but increasing in magnitude year after year until arriving in 1986 up to 5.08%. There is a short recovery, within which there is still a deficit, between 1986 and 1991 and increasing again in the last two years of the period, of course, continuing until the middle of the first decade of this century. The evo-

Figure 27



Source: Espuelas Barroso (2013) and own elaboration.

Figure 28
Fiscal Balance % GDP



Source: for Central Government data, Comín y Díaz (2005; table 12.17). For General Government 1958-1963, Cuentas de las AA.PP.; 1964-1993, Dirección General de Análisis Macroeconómico y Economía Internacional, Ministerio de Hacienda.

lution of the fiscal balance of the General Government practically runs parallel to that of the Central Government, the only difference is that the deficit will be higher in recent years, due to the imbalances presented by the Autonomous Communities.

How were the deficits financed? Answering this question leads us to examine the **public debt**⁴³. Figure 29 provides three sets of data. With regard to the public debt issued each year, its amount will be in absolute terms very reduced, until the explosion of the 80s. The expenses of the civil war were covered for the most part by the “patriotic subscriptions” and with advances from the Bank of Spain, which became debt later on. As we have seen, having just paid the war arrears and the extraordinary budgets of the post-war period, the public deficit was reduced until reaching even years with surplus. This situation was still kept thanks to

the public debt issued to finance extra-budgetary expenditures, since debt issues in absolute value were higher than the amount of the deficits, even debt was issued when there was a surplus.

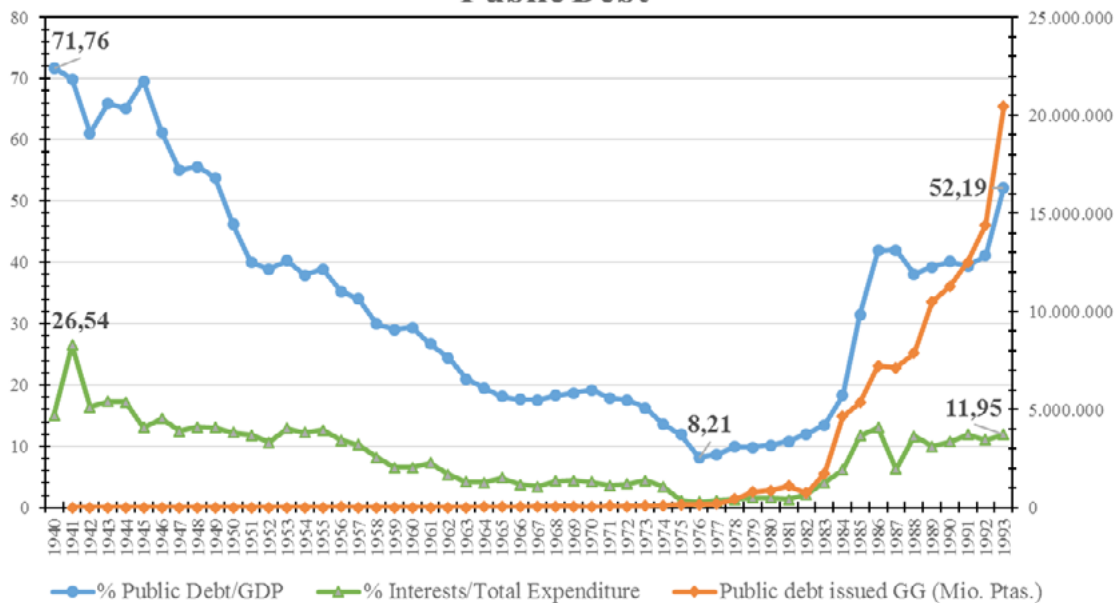
In fact, the most of the public debt issued between 1940 and 1975 (68%) will be used to the financing of public investments, extraordinary budgets and subsidies to private investment by means of State guarantees. Thus, debt issues (of various types) served to finance public banks, which granted privileged credit to companies and sectors according to the government’s economic policy; INI and other autonomous agencies (such as the National Colonization Institute, the National Housing Institute or the State Forest Heritage); or for the realization of public works, railroad tracks and road network. A relevant aspect is that, until 1958, the public debt was automatically pledgeable (see footnote 17) at the Bank of Spain, a financing system that is attributed to be inflationary.

The reduction of the debt issued and the ex-

⁴³ For the period 1940-1975 we rely on Comín (2015), although we do not share its comments on the “legality” or “constitutionality” of the issues of certain types of public debt, since it makes no sense to use those terms in a dictatorship.

Figure 29

Public Debt



Source: Comín y Díaz (2005; tables 12.13 y 12.34) and own elaboration.

pense for the payment of interests, until 1976, the year in which it becomes irrelevant, was made possible by a combination of factors. Firstly, because of the low level of deficits. Secondly, by the effect of economic growth from 1951 until the crisis of 1973. Thirdly, by the existence of inflation as a tax, which reduced its real value. An inflation generated by the possibility of automatic pledging of the debt subscribed by the financial institutions in the Bank of Spain, which gave rise to the increase of the amount of money in circulation, what has been called the indirect monetization of the public deficit. Fourth, the real interest rates of the debt were negative during almost all the period of the dictatorship, due to the “financial repression” of those years⁴⁴.

During the first years of the restoration of democracy, public debt issues will remain contained, as it will happen to the payment of interests, increasing slightly in relation to GDP. But since 1983, there has been an explosion in

⁴⁴ Financial repression which, on the other hand, was a widespread policy in the countries of the centre of capitalism between 1945 and 1980, consisted of the establishment of capital controls that prevented or limited their exit abroad, along with the imposition on banks of a regulation that forced him to maintain a percentage of his funds in public bonds, setting also a maximum interest rate for bank deposits.

the use of debt as a financing instrument for the Welfare State, given the impossibility of the tax system to provide sufficient resources for it. After reaching a peak in 1986, it stabilizes, again increasing with the onset of the crisis of 1993. Between 1975 and 1982 the access of the Treasury to the Bank of Spain will be restricted, cannot be more than 12% of the expenditure budget of the State, but it's been increased the legal coefficient of cash of the financial institutions up to 20%, which means that it must be covered by more government bonds.

Since the arrival of the PSOE to the government, this will adopt a new philosophy for the management of the debt. This new philosophy consisted of financing through the financial market, establishing a public debt market with new types of securities, in the short, medium and long term, also trying to extend the average life of the portfolio. Though this new philosophy drove financing to become more expensive, increasing interest payments. This period will culminate in the granting of the independence of the Bank of Spain (to be approved by law in 1995), the reduction of the legal cash ratio and the elimination of the obligatory investment ratio, starting a period of prosperity in which the debt will be reduced

substantially with respect to GDP, due to the strong economic growth of those years, until reaching the Great Recession.

3. Industry, Internationalisation and Technology in Spain.

Once we have drawn the main aspects of the huge transformation of the Spanish economy, we think it is very important focus what can be considered the main core of that change which has had to do with the interrelationship between three crucial axes: the industrialization process, the growing internationalisation and the technological change.

3.1. Industrialisation.

3.1.1 General Overview.

As we have seen in epigraph 1, the consolidation of Spain's industrial development did not occur until the second half of the twentieth century. As late as 1951, value-added in agriculture was greater than in manufacturing and mining. Nevertheless, from that point on industrial production came to represent the foundation on which the dynamism of the Spanish economy was built. Thus, the sector that expanded most quickly between 1954 and 1974 was industry, with its share of gross domestic product (GDP) rising from 17.6 up to 28.4 per cent over the same period. Subsequently, economic problems impacting on the industrial sector resulted in a reversal of this trend, but for the whole period it is clear that value-added in the industrial sector increased at a faster rate than in the rest of the economy, and its contribution to the growth of the economy correspondingly increased (to 26.8 per cent). The composition of industry changed in response to market opportunities and the uneven incidence of technological change. Growth was initially focused on manufacturing, as elsewhere in Europe, and was facilitated by the process of import substitution. Indeed, in the earlier period exports were generally only a marginal aspect of production, although a few exceptions can be mentioned, such as

shipbuilding and publishing. The main sources of dynamism in the economy – sectors such as chemicals, metal machinery, processed rubber and plastics, non-metal mineral products and paper and printing – were the recipients of a remarkable proportion of Foreign Direct Investment (FDI).

The dynamism of this period implied a degree of convergence with the industrial structures of the principal west European economies, including those of the European Economic Community (EEC). There remained significant differences between Spain and the other European economies, however. By the end of 1975 the Spanish economy suffered from an excessive specialization in the production of consumer and intermediate goods of low technological sophistication, while at the same time capital goods industries were under-represented (Buesa and Molero, 1998).

The crisis of the mid-70's, which abruptly ended the dominant model of accumulation prevalent since the civil war, transformed the sectoral patterns of growth above described. From the perspective of industry, the most significant impact was the change in relative prices caused by the hike in energy prices and the instability associated to the crisis in the international monetary system. This led to a dramatic reduction in the demand for manufactured products, particularly in such sub-sectors as metallurgy, heavy machinery and electrical materials. As a result of the introduction of new technologies, demand simultaneously increased in sectors such as electronics, precision instruments and the automobile and aero-nautical industries. Over the period 1975–95, there was a profound transformation in the structure of the Spanish manufacturing sector. Many of the earlier sources of dynamism faced crisis, reversal and stagnation. Overall, however, these structural changes amounted to a reversal in the previous tendency towards greater structural convergence with the large European economies. This divergence is slight and gradual, but clearly discernible.

3.1.2 Spain in the nineteen fifties: a turning point in the development of the national economy.

After the long period of nationalist and protectionist regression which began in the last few decades of the 19th century and was exacerbated in the years following the Civil War (1936–1939), Spanish economic policy faced significant changes towards a more open policy. These changes had become inevitable in the 1950s when the expansion of the economy meant that it was faced with a difficult situation as this growth required major increases in imports, whilst at the same time exports were unlikely to be able to maintain the required rate of growth. As a consequence of the limited capacity required by international demand, the primary products were not sufficient to achieve growth above a certain rate. Meanwhile, the almost exclusive focus of industrial activities on the domestic market meant that they were unable to generate the foreign currency necessary to defray the cost of the imports required by this sector. These external constraints became so extreme that by the end of the decade international reserves had virtually been exhausted. Added to this was the fact that it was extremely difficult to introduce the technological and production changes required by the industry because productivity was not included in the salary system (Torres, 1956).

The introduction of technology became a factor which was essential to the high industrial production growth rates which followed and even exceeded those seen for most of the nineteen fifties, due to the fact that demand was unlikely, in terms of amount or quality, to be covered by domestic production. Technology creation was characterised by a limited state sector (universities and research centres), badly equipped in terms of human, material and financial resources, which bore very little relation to the economic reality of the country, and by companies which were generally badly equipped and were created or maintained in a protected environment with no competition, operating in an economic framework seriously

distorted by the state interventionism we have described above. If the fact that there was not a policy to promote the creation of technology is added to this, the vital need to make use of the importation of technology could not have been clearer (Gonzalez and Jimenez, 1979).

The most significant part of the overall growth during the 50s was what seen on the industrial sector, with accumulative rates of over 6.5% a year. It was in this decade that industry clearly overtook agriculture in terms of its economic importance, and the economy ceased to be as dependent on agricultural harvests, instead becoming more closely linked to the industrial cycle. Industrial growth in turn has a correlation with the considerable level of investment largely aimed at the acquisition of equipment, an extremely important form of technological modernisation. Industrial growth was seen in all sectors but more than 50% can be attributed to the intermediate and capital good industries; sectors which were to be crucial in the industrial expansion of the 70's.

From the point of view of foreign trade, it was a case of import substitution industrialisation, with the highest rates of substitution being seen in consumer products (with a lower technological content) and greater difficulties being encountered in intermediate and capital goods. It gradually led to a contradiction which created serious difficulties for the development process, especially due to the fact that it did not develop a parallel export potential which could have helped to reduce the growing trade deficit. It should also be pointed out that the sectors on which imports substitution reached significant levels provided the fundamental basis for the expansion of industrial exports which began to take place in the following decade (Donges, 1976; Torres, 1958).

The problems highlighted for the production of national technology also included organisational aspects, meaning so that these technologies also generally had to be imported. Indeed, in the 50's, what could be called the first wave of mass importation took place, an essential part of which was the 1953 Pact of Madrid signed with the United States. The compensa-

tion offered by the US included the technical cooperation agreements which made available different devices for the identification and importation of new technologies. The arrival of these new technologies thus took place during this period through information and training trips to the United States, visits by experts to Spain and the organisation of courses, seminars, conferences, etc. (Buesa and Molero, 1982).

3.1.3. Full expansion of the model: definitive “take off” in the 60’s.

The framework of economic opening-up and liberalization described above also appeared in the more limited context of industrial policy in the sixties. Although there was still a general reference to maintain the previous model mainly based on the domestic market, the interest in foreign markets grew constantly. All of this was slightly out of step with the general liberalizing measures of the 50’s and within an increasing opening-up philosophy. Moreover, as we have seen, the international context was extremely favourable and was crucial to build up what is known as new equilibrium factors which allowed for a rapid and constant growth until the crisis of the 70’s.

Changes in industry could be seen quickly and as well as the growth rate of the Industrial Gross Product in constant values experienced between 1960 and 1966 the most dynamic period in the 20th Century (Braña, Buesa and Molero, 1978). This strong dynamism resulted in the industrial sector gaining importance in the national production, going from 19.6% in 1958 up to 28.4% in 1974 (see figure 4 above). In this way, the contribution of the industrial sector to the economic growth in the period of 1958–1974 can be estimated in 33.7%, the most important growth in the longer period from 1954 to 1998 (Buesa and Molero, 2000).

From a sectorial perspective, we must remark the increasing weight of modern activities in Chemicals and Metal-mechanic macro sectors, combined with a decreasing weight of more traditional activities such as textiles, food and beverages, and so on. The formers were lead-

ing the industrial dynamism all over the world and were characterised by a much more technological intensity; so, technology comes to be a determinant factor for the success of the model; in other words, the Spanish economy, in its process of strong growth and industrialization, required much more and much better technological resources.

However, the capability of producing domestically such resources was very limited and, therefore, turning to foreign technology became an extremely important factor. As a result of such a scarce internal activity, the strong demand of technology due to the growth and diversification of the industry was to be covered to a great extent by imported technologies. In fact, as already indicated (Braña, Buesa and Molero, 1984), a great part of the companies involved in the few national programs available were also important buyers of foreign technology, indicating that the domestic effort played a clear complementary role to guarantee the incorporation of imported technology (Hidalgo and Molero, 2009).

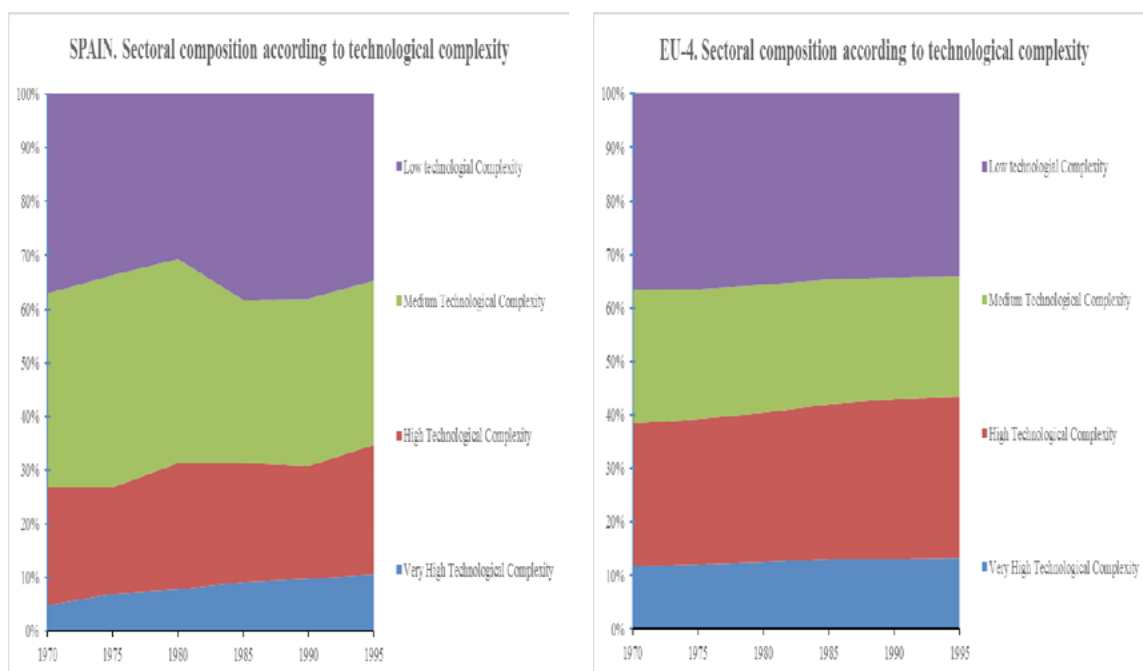
The purchase of foreign technology is reflected in a strong increase of the payments registered in the balance of payments and in the imbalance in terms of incomes. Indeed, the payments went from 19.3 million dollars in 1958 up to 199.6 million in 1972, and the deficit in income during this same period went from 17.5 million dollars to 179 million dollars. In addition, we must point out that the ratio between R&D spending and payments for imported technology were very low (0.25) while in developed countries it is usually higher than 1, ranging from 1.3 in Italy to 200 in the United States (Ardura, 1973).

3.1.4. Crisis and industrial transformation.

Since the crisis of the 70’s and coinciding with the Spanish political transition to a democratic regime, the role of the industry can be characterised as follows: (Buesa and Molero, 1998):

- The industry started a process of declining in its weight within the economy as a whole; it decreased from 31.38% before the crisis to 29.12% in 1994.
 - The Value Added (VA) growth was based more on employment (quantity) than in productivity (quality). In other words: “we witness the end of the former development pattern before the crisis (...), The industry gives the role of pushing the economy to the service sector and with this change the economy entered in a stage characterised by moderate rates of expansion” (Buesa and Molero, 1988; 36).
 - Within manufacturing industries, the growth was more significant in those with the highest and lowest level of technological composition, what led to a higher weight in the overall structure (figure 30). This polarization relegated the intermediated technological level sectors.
 - In other European countries we can see parallel process albeit with some differences. The most significant one is
- the Spanish economy showed an internal technological composition clearly below the average of EU countries.
- A particularly relevant change had to do with the relative role of domestic and foreign markets. On one hand we witnessed a loss in the capacity for covering the growing inner demand, while, on the other, exports showed a very relevant growth.
 - This twofold process was more remarked in sectors with higher technological complexity. The most significant case is that of the highest technological complexity. In them, the capability to cover the domestic market was 70 % before Spain entered in the European Community and in just 10 years that ratio decreased to 36 %. At the same time export propensity grew up from 20% in the 80's up to more than 50 % in 1995. Behind that tendency is a very fast process of intra-sectoral specialization in which multinational enterprises affiliated had a very important role. (Molero and Buesa, 1993).

Figure 30
Sectorial composition according to technological complexity



Source: own elaboration.

In this so complex and changing context, the industrial policy suffered critical changes as well. It is not easy to have a simple picture of its evolution, but as a summary of the main guidelines, orienting the policy we can cite the three elements: the deregulation process; the growing relegation of public enterprises and the reduction of fiscal and financial incentives that we have been analysed in the previous epigraph.

The consequences of those changes were non-negligible. Regarding the external opening up process, a rapid balance indicates that overall reaction of the Spanish economy was positive in terms of the growth of national income. However, looking more accurately to foreign trade a simultaneous trend of increasing imports happened and a less dynamic process of exports augmenting; thus the trade deficit increased, partially due to the lesser technological development of our manufactures.

The financial deregulation brought an increase of interest's rates, which affected a substantial number of firms in the first part of the 80's. In parallel, a process of dissociation between banks and manufacturing firms took place, changing a historical structural relation. Moreover, we witnessed a process of reduction of the interest of the banks for the productive system and a growing one for financial activities as objectives for their investment.

In third place, the reduction of other instruments affected positively to the competition framework. Added to the liberalization of foreign trade, another general consequence of the new industrial policy was a substantial reduction of industrial prices, in contrast with the difficulties existing for reducing many prices of service activities, not affected by a similar process of deregulation.

3.2. Internationalisation

The period of economic nationalism and autarchy was accompanied by an important reaction against the 'de-nationalization' of the Spanish economy, because of the strong presence of foreign capital. Legislation after the civil war

restricted foreign investments even more, as the international context of the world war naturally limited transnational investments. Nevertheless, it did not take long for voices to be raised in favour of a change in the legislation towards liberalization (Muñoz et al., 1978).

The United States emerged since the Second World War as the undisputed leading investing country; in Europe, the Marshall Plan reinforced the position of US firms. Despite Spain did not participate directly in that Plan, the signature of the Madrid Pact in 1953, which permitted the establishment of American military bases on Spanish soil, had a similar effect as far as the opening of Spanish legislation was concerned. The implications of the Madrid Pact went far beyond its direct military consequences: it involved important technological collaborations, provided the basis for the 'productivity movement' and entailed a certain liberalization of the Spanish economy, especially with regard to the reduction of legal obstacles to make investments by US firms. However, while there were some important developments in the wake of the Madrid Pact, substantial internationalization only occurred in the wake of the Stabilization and Liberalization reforms of 1959.

3.2.1. Development, liberalization and the first great wave of investments.

These changes marked a definitive change in policy towards foreign investments, bringing Spanish policy gradually into line with the majority of other European countries (Braña et al. 1984). From that point, FDI helped to initiate a period of extraordinarily high growth that would slow down only with the onset of the economic crisis of 1973 and the political transition (Buesa and Molero, 1988; Muñoz et al., 1978). The favourable conditions that the new law established consisted of a new and stable legal framework and a range of incentives for foreign investors. Their positive impact was reinforced by the dynamism of the Spanish economy after 1959, with GDP rising by an average of 7 per cent annually since 1960 until 1975 and industrial production more than tripling over the same period. Moreover, in the

wake of the first reforms, Spain underwent a steady if gradual opening of its economy, with reforms to trade policy, exchange controls and foreign investment. A major milestone in this process was the signing of the 1970 preferential agreement with the EC.

In this context, foreign investment grew quickly from Ptas 2bn in 1960 to Ptas 19bn in 1975, as firms sought to take advantage of low labour costs and growing markets and to overcome the remaining trade barriers. In terms of the origin of investments, in the initial period US firms constituted the principal investors, accounting for nearly 30 per cent of investment (though the aggregate share of EC states was larger). Sectorially, investment was concentrated on the manufacturing sector (more than 75 per cent of the total in 1960–75 though investments in services were increasing towards the end of this period) with most of it in the most dynamic industrial sectors.

The effect of this investment in technological capabilities is difficult to be estimated with some precision but a reasonable approximation can be made. With regard to embodied technologies, foreign firms were superior to domestic for practically every indicator considered (Rodríguez de Pablo 1980). This would seem to support the hypothesis that the presence of foreign firms raised business standards in Spanish industry during the boom period. With respect to disembodied technologies, the importance of the contribution of foreign firms can be confirmed by census data for 1977, which reveal that firms with foreign capital over 20 per cent made almost 60 per cent of the total payments for foreign technologies, and also by analysis of the contracts for technology transfer, which shows that a significant share was carried out by foreign firms, frequently with their respective parent companies (Molero, 1982). There was a strong correlation between control of the firms and technology imports, especially in technologically more advanced sectors like electric materials, chemicals and vehicles.

From the outset, with a few exceptions, foreign firms integrated quite well with local condi-

tions and economic power. This can be seen from analysing participation in pro-active industrial policies, and secondly, the relative position reached by MNCs' subsidiaries within the core of Spanish economic forces.

On the former point, a detailed microanalysis of the firms that received state aid in many different ways and through a large variety of programmes in the period 1963–77 (Braña et al. 1984) allows the importance of foreign firms in state aid within every sector and the generosity of the benefits they received to be measured (Buesa and Molero, 1988). For a nucleus of three very important sectors – chemicals, electronic equipment and vehicles – both generosity in benefits and the importance of firms receiving state aid reached very high levels. A large number of firms with foreign capital or technology received state aid. The kind of incentives offered to foreign firms included tax reductions, incentives for exporting, facilities for importing intermediate inputs, flexibility for investment amortizing, aids for labour force training, cheap and well-organized land, and so on.

The position of foreign firms was evaluated by Muñoz et al. (1978) through a detailed analysis of the 300 largest industrial firms in 1973. As early as 1973 their role was comparable with large Spanish industrial firms in terms of sales (particularly) and employees. However, such penetration came in different ways; in just under half of the cases foreign enterprises acted separately, otherwise they joined different fractions of Spanish capital (private or public). These mixed examples added more economic value than the exclusively foreign firms.

3.2.2. Recovery, economic integration and a new wave.

It is important to start with some comments about the transformation of the external and internal framework. The period between 1974 and 1985 can be considered as a transitional period towards a new growth model which was to become firmly established in the second half of the 1980s. In this period, foreign investment inflows experienced a period of stagna-

tion, followed by a recovery. But the most significant changes were qualitative rather than quantitative. Prior to this period the model of development in Spain had been principally a Fordist one, characterized by specialization based on the chemical and metal-mechanical sectors. The internationalization of firms corresponded to the classical model of cost reduction, growing markets and firm-specific capabilities acquired in the home country. During the crisis, this model of internationalization, however, became increasingly precarious. In order to adapt to a more volatile international business climate, firms were forced to adopt more flexible strategies facing to new international competitors and technical change (especially the growth of information technology).

For Spain itself, the crisis meant a particularly strong economic impact. The problems facing many industrial sectors required radical restructuring. This process of adjustment was marked by a more intensive opening-up of the economy, notably more liberal foreign investment and trade regimes. The prospect of EC membership reinforced and required these policy changes. In addition, two other basic changes affected Spanish industrial development. The first was related to the diminished importance of industry in terms of both its absolute impact on the macro economy and its contribution to growth. The second change had to do with a deep process of industrial restructuring, which led to a shift in the structural composition of the economy away from some of the leading sectors during the 'development' period, and towards new sectors.

These changes were accompanied by a significant modification in the kind of strategy adopted by Multinational Corporations (MNCs). The most notable was the change in the balance between domestic and external markets. In recent years, a great number of multinationals with a presence in Spain have consolidated their strategies of using the country as an export platform. The adoption of such strategies explains to a large extent the aforementioned improvement in export performance. The increasing export activity does not mean

that foreign markets have completely replaced domestic ones; just the contrary, the available studies confirm that domestic sales are still clearly the first objective of most of the firms, although in some cases exports are nearly as important as domestic sales. However, in spite of the growing importance of export strategies the trade balance remains negative. The reason for this resides in the fact that imports have also expanded very quickly; moreover, all the available studies concur that companies with foreign capital have a higher import propensity than those with domestic capital. The result of all this has been a deficit in the foreign trade balance.

Another fundamental element of MNCs strategies has been their technological activities, playing a very significant role in the Spanish research and development (R&D) system. According to OECD 1997 estimates, MNCs represent more than one-third of total Spanish R&D expenditures (government R&D - GERD) and more than half of total (business enterprise R&D - BERD) (Molero et al., 1995).

More detailed information can be obtained from the first Spanish survey on innovation carried out in 1994, at the end of the period of our study. According to this information, foreign firms were 4.66 per cent of the total, but represent 14.85 per cent of those with R&D centres. Their contribution to the national system of innovation (NSI) is more visible when we compare their technological activity with national averages. Thus, while only 10.7 per cent of national firms can be classified as innovative, in foreign firms this ratio rises to around 50 per cent. Similarly, about a quarter of national firms in the sample declare having R&D activities, against 62 – 72 per cent in the case of foreign companies. Finally, less than 18 per cent of national firms have R&D laboratories, compared to 64 per cent in the group of non-EU firms.

This superiority in innovation activity is one of the most general findings of existing research (Bajo and Lopez, 1995; Circulo de Empresarios, 1995; González, 1997; Martin and Velázquez, 1996; Salas and Merino, 1996; Molero 1995);

however, there are underlying factors – apart from nationality – that could explain a considerable part of those differences. In fact, all available studies confirm two basic causes of the distance between Spanish and foreign enterprises: the size and sector of activity. When both elements are controlled for, the technological effort is quite similar between the two clusters (Martín and Velázquez, 1996; Salas and Merino, 1996). Nevertheless, it is misleading to assert that MNCs do not represent any special contribution to technological development. In fact, MNCs constitute a central part of the Spanish NSI because they usually have a longer tradition of organizing innovative activities, are of a size more adequate to carry them out and are more active in sectors that focus on current technological developments, notwithstanding the fact that Spanish companies can face firm-to-firm comparisons when they enter the same sphere.

The situation is different if we consider technology importation. In this case, all studies reveal that MNCs import foreign technology more intensely (González, 1997; Martín and Velázquez, 1996; Salas and Merino, 1996; Sánchez, 1984). Leaving aside other factors, what is most critical is the special link they have with their mother companies, which constitute the first external source of technological know-how (Molero, 1982; Molero et al., 1995).

A last point to highlight is that the presence of foreign firms in the Spanish market has increased considerably, they now constitute one of the most efficient and powerful groups of industrial firms. As has been noted (Buesa and Molero, 1998), the presence of foreign affiliates among the leading firms in each sector doubled between 1982 and 1992. If we look at the way in which they execute their control over the firms, we also can find substantial changes in the period. Thus, in 1982 foreign firms had absolute control in 53.3 per cent of all their subsidiaries, another 26.3 per cent was under majority control, and in 20.4 per cent of cases it was a minority one, implying the existence of important Spanish partners. Ten years later absolute control was exercised in 75.6 per cent

of cases, majority control affected 17.2 per cent and minority control was reduced to 7.2 per cent of firms. In other words, the strategy of association with national economic forces was considerably reduced, while the integration into multinational groups advanced in the same period.

3.3. Technology: from the external dependence to the internationalisation

In the two previous sections, we faced the critical role technology played. Now we shall address this topic more in detail, in order to have a better understanding of its meaning.

3.3.1. The 50's.

Starting from the decade of 50's, we have already explained how the acceleration of the industrial growth substantially increased the demand for productive and organisational technology substantially. As the national capability for developing such inputs was very far from the necessities, the result was an inevitable dependence on foreign technology. Recent works carried out (Hidalgo and Molero, 2009) using new information on patents, allow us to add new knowledge to understand the panorama.

In the nineteen fifties, 54,254 patents were granted in Spain, of which 53.6% were of Spanish origin and 46.4% were from foreign countries. This decade saw a large increase in the number of foreign innovators in Spanish industry. Thus, whilst at the beginning of the decade the patents of foreign origin represented barely 26% of the total of those granted, in the second half of the decade they just exceeded the patents of Spanish origin.

Analysing with more details the origin of the patents from abroad Germany (19.4%), France (17.0%) and the United States (15.7%) are the countries with the biggest influence on the innovative activity undertaken in Spain. It should be stressed that these are precisely the countries with which most of the technology transfer agreements were signed, illustrating the high level of complementarity in existence between both processes. It can also be

seen that other European countries, especially Great Britain (10.6%), Switzerland (10.5%), Italy (7.7%), Holland (6.6%) and, to a lesser degree, Sweden (3.0%) and Belgium (2.6%) exported their technology to Spain at this time.

There are remarkable sectorial details. The first noticeable fact is that in the coal, mineral, oil and gas extraction, chemicals, oil and coal derivative sectors, and in the basic metal industries, foreign patents have had more weight than those of domestic origin. In the wood and cork industries, and the manufacture of non-metallic minerals and electricity, gas and steam, foreign patents also exceed those of domestic origin, although only by a small margin.

It has been also studied the role of foreign technology in the technological pattern of industrial sectors, arriving to the conclusion that there were substantial differences across them. Two contrasting groups were identified (Hidalgo and Molero, 2009):

- The first group of sectors is basically made up of sectors from the energy and chemical industries. These sectors typically have high levels of concentration, as well as a relatively large innovation size. They have a level of stability and there are significant barriers to entry for new innovators. In addition, the presence of foreign innovators is very high; this is particularly noticeable in the group of leaders.
- By contrast, group 2 is made up of very traditional manufacturing industries related to the manufacture of food products, leather and footwear, wood and cork, furniture and paper and printing. They typically have limited levels of concentration in the innovative activity, an innovation size that is also limited, and a high level of innovative turbulence reflected in high levels of instability and high growth rates. The presence of foreign patents is more limited in these sectors, as is the case with the number of foreign inventors in the group of leaders.

3.3.2. The 60's.

The complete development of the pattern of growth initiated in the 50's even estneded more the demand for technology. At the same time, this confirmed the insufficiency of the domestic production of technology what led to a reinforced need of foreign technology. Other recent investigations help to cast new light on the phenomenon (Hidalgo, Molero and Penas, 2010).

Firstly, the quota of patents granted in Spain attributable to research is split in domestic (46.2%) and foreign (53.8%) origin. In general, there was an increase in the growth of patents of foreign origin, which rose from 47.0% in 1960 up to 64.4% in 1966. There are different reasons for this phenomenon: on one hand, the increased internationalization of the technological activity carried out by multinational companies, mainly from United States, Germany, France and Switzerland, which wished to protect their products on the Spanish market [44] and on the other, the search by these companies for a greater capacity to gain access to locally based technological know-how.

The analysis related to the origin of the patents granted shows that 89.8% of foreign patents come from seven countries, showing so a strong concentration of the external technological influence. This influence was concentrated in the United States (21.5%), Germany (18.1%), France (17.3%), Switzerland (10.3%), United Kingdom (9.6%), Italy (7.6%) and Holland (5.2%). This fact provides evidence of a significant increase in the foreign technological development of the companies from these countries from the sixties onwards, contrasting with the more centralized approach to research strategies taken by other countries such as Japan and Sweden, whose quotas of patents granted in Spain were of just 0.6% and 1.8%, respectively (Cantwell, 1995). On the other hand, not surprisingly, companies from small European countries such as Holland and Switzerland show a high level of foreign technological activity, and this has remained at a steady rate of 50% up to the nineties (Cantwell, 1989).

We have identified as well the technological areas that have had the strongest impact on the industrial development of Spain in 1960–1966. The transfer of these patents to sectors of economic activity showed a strong concentration in the most traditional sectors, the so-called mature industries, such as foodstuff, textile, furniture and accessories, footwear, metallic products and diverse manufacturing industries. However, there was a fast domestic development of other sectors with a stronger technological content such as the production of chemical products, mechanical and electric machines, shipping material and electricity, gas and steam. The patents from the United States greatly complemented the technology domestically developed by Spanish companies, for example in the foodstuff, textile and metallic products. However, they were mainly focused on the development of two basic sectors: the chemical and the mechanical machinery sectors. The chemical sector (chemical products and rubber products) is the most relevant with a total of 2,554 patents distributed in the technological areas of inorganic chemistry, glass, organic chemistry, organic macromolecular compounds, and dyes, paints, polishes, natural resins and adhesives.

On the other hand, the European countries which provided the greatest amount of technology to the Spanish industry have focused their patents in areas related to different industrial techniques supporting the industrial development in the more traditional industrial sectors. We must also highlight the European technological momentum to other sectors such as the production of mechanical machinery in the area of combustion engines and engineering elements, with 2,117 patents; and the sector of shipping material with 1 582 patents. However, the European contribution was concentrated on the development of the chemistry sector with 3 202 patents, with an especial role of Germany.

These data show that most of the technological development has taken place in those sectors where foreign patents have contributed to complement the technology developed do-

mestically. We can therefore say that the existence of a basis of technological knowledge in a sector becomes a necessary condition for the efficient assimilation of a technology from the outside, regardless of its origin. This would explain, for example, the later development in Spain (in the 1980s) of technologies associated to the electricity, gas and steam sectors, which origin can be found in the incorporation of technology coming from another source than the one developed by national companies in the studied period.

The impact of different technological factors on the differences of the industrial sectors growth rate has also been investigated (Hidalgo, Molero and Penas, 2010). Concretely it was considered direct incorporation of technology, technology embodied in other activities, own technological capabilities and capacities for technology diffusion.

The model proposed is a regression model whose generic expression is:

$$LNVAit = \frac{1}{4}c + b1LNPVit + b2LNMPit + b3TMit + b4LNPEit + b5LNPIXit + eit$$

With the variables defined as:

VA, change in added value in the 1960 value for pesetas (lagging Ln);

PV, change in productivity per labour unit cost in 1960 pesetas (Ln);

MP, change in production imports (Ln);

TM, tendency of production imports (Dummy);

PE, patents granted to residents – Spanish patents (Ln);

PX, patents granted to non-residents – foreign patents (Ln);

Subscripts i and t refer to the economic sectors and time, respectively.

The result is integrated with information on 11 groups of industrial activity, categorized accordingly to the National Classification of Economic Activities of 1952 (CNAE-1952).

The main findings are the followings:

- Beginning with the direct incorporation of technology, foreign patents show a positive influence and an elasticity, which fits perfectly with the general knowledge available on the Spanish industrialization process: the dependence on foreign technology is clear, now that the sector's detail has been made with the available data collected by the authors of the study.
- Secondly, foreign technology incorporated to production imports also shows a positive influence on industrial growth. Although elasticity is lower, this shows the modernization of production structures, which are strongly dependent on importing foreign intermediate products, and the significant role it has played in the Spanish economy's industrial boom.
- Thirdly, the results of the Dummy variable (TM) are also relatively coherent with the proposals. The relationship shows that other variables' effects increase by 14.9% in sectors with lower dependence on foreign production imports. This is a clear sign that the existence of the countries' own capacities (absorption capacity) allow for more efficient use of technological knowledge incorporated by other sources.
- The variable with the most difficult results to be interpreted is the one referred to Spanish patents. The negative value of the factor shows that when Spanish patent production was lower, growth rates were higher within industrial sectors. Someone could argue that a higher abundance of that patent type does not necessarily mean higher availability of technology, but rather on some occasions, knowledge (or technology) on a lower level than that of foreign technology. Consider that these two problems are not present in foreign patents, where firms register

practically all patents and the average innovative level is clearly superior.

- Last but not least, it is remarkable the role of productivity. This variable is significant, with a positive sign and its elasticity has the highest value; therefore, the dissemination potential plays a very important role in diffusing technologies among the Spanish industrial production system and resulted in higher industrial growth.
- Taking a deeper look to the sector aspects, the indicators available allow for replicating model estimates for two subsets of sectors. In the mature sectors, technology incorporation through productive imports best explains the dynamic behaviour and modernization of the sectors in this group. On the other hand, in most modern sectors that source is not significant, while the incorporation of knowledge through patents it is so.

Unfortunately, the former was accompanied by an almost complete lack of policy initiatives to address the structural problem of the lack of technical know-how. The results were three-fold: a lack of resources dedicated to the creation of technology, the continuing need to import foreign technologies and the absence of effective policies to tackle this situation.

3.3.3. 70's onward.

It is at the end of 60's and beginning of 70's that we can use for the first time reasonable indicators on R&D to measure the inner effort on technological innovation. Measured in constant 1970 pesetas, expenditure on R&D went from Ptas 5,593 mn. in 1970 to Ptas 17,038 mn. in 1980, equivalent to a 0.23 per cent to 0.44 per cent increase in GDP. Despite this substantial increase, in comparative terms Spain was still underperforming, with comparable countries such as Ireland or Italy assigning as much as 0.77 and 1.12 per cent, respectively, in the early 80's. The results for patenting activity are similar: whereas in Spain the number of

patents per 10,000 inhabitants went from 13 in 1965 up to 24 in 1983, the average figures for the OECD countries were 36 and 47 for the same years. These figures include public institutions and universities.

Arguably, a better idea of the technological state of industry is obtained from data that refer only to firms. In general terms, companies contributed around half of R&D, rising from 0.10 per cent of GDP at the beginning of the 70's up to 0.25 per cent in 1983. From a qualitative point of view, the precarious nature of the situation is revealed by the following facts at the beginning of the 80's:

- Barely 500 companies carried out any R&D at all.
- Only 23 companies had a team of researchers (or their full-time equivalents) greater than 25 people.
- More than 90 per cent of the expenditure on R&D carried out by firms were directly financed by the firms themselves; public resources accounted for only a little over 5 per cent.
- Most R&D has been concentrated in a few products, leaving a wide range of products where there is little or no R&D involved at all. Radios and radio apparatus, motor engines, non-ferrous metals and electrical machinery accounted for more than 40 per cent of the total R&D resources in 1983.

While R&D is only one indicator of technology acquisition, the lack of resources devoted to this activity was symptomatic of a broader innovation problem among domestic firms. By contrast, the import of technology increased steadily during the 1960s and 1970s. In the 1980s, technological sales abroad grew, but they still only accounted for 25 per cent of imports – a much lower figure than for most other developed countries (Sánchez, 1984). This imbalance between technology purchases and sales has been a characteristic of Spanish industrial development right up to the nineties (Casado, 1995; Molero, 1996). The contracts

for the transfer of technology published by the Ministry of Industry and Energy allow a more detailed analysis. This data source confirms the tendency towards an increase of imports, from an average of 350 contracts annually in the mid-1960s to more than 700 a decade later, and between 800 and 900 by the mid-1980s (Braña, Buesa and Molero, 1984; Buesa and Molero, 1988). The most obvious repercussion was an increase in liabilities from 1978 to 1982, rising from Ptas 30.5 bn. to Ptas 78 bn. a year (Gil Peláez, 1983). But the importance of the contracts goes far beyond their number – they reveal the unequal situation under which they were drawn up. Contracts often incorporated multiple clauses which seriously limited the assimilation of the technology, a situation declared 'abusive' by various international organizations. For instance, subcontracting of the acquired technology was sometimes prohibited, restrictions were placed on the export of the products manufactured using the transferred technology and purchases of other goods were 'tied' to the sale of technology.

The effect of foreign technology on Spanish industry can be estimated from the Ministry of Industry's data on the largest industrial firms. In several studies (MINER, 1983) it was estimated that production based on foreign technology was more than 23 per cent for the whole group of firms – a figure that was much higher for firms in high technological content sectors. These sectors were characterized by the strong presence of foreign investments, foreign firms which are crucial for the import of technology (Molero, 1982; Sánchez, 1984).

As it has already been noted, from a policy perspective the quantitative restrictions on the purchase of external technologies became progressively less important in a macroeconomic context characterized by an enhanced capacity to attract foreign savings. With regard to the lack of applied research with relevance for industry, in the National Council for Scientific Research (CSIC) and universities, few changes were perceptible. Nor was much effort made to provide incentives for Spanish firms to perform R&D. While there was a growing aware-

ness that something had to be done to address the problem of the lack of national sources of innovation, the taken initiatives made little or not improved the overall technological capability of Spanish industry (Molero, 1982).

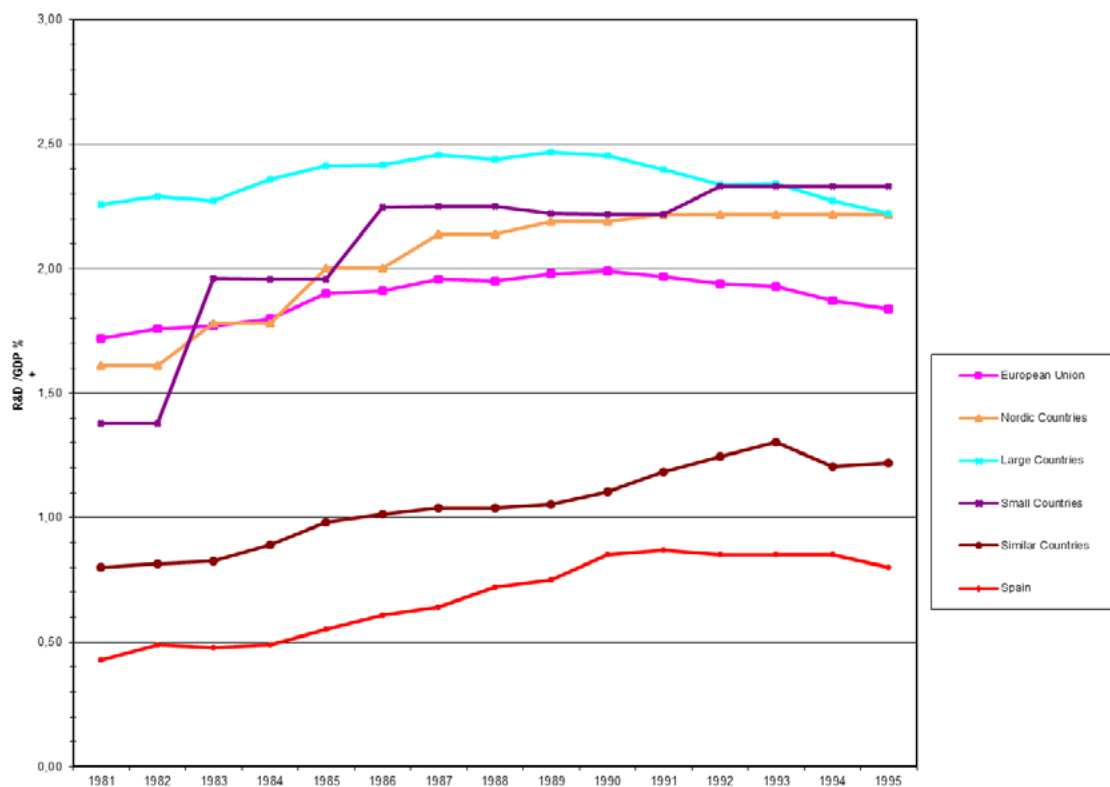
3.3.4. Recovery, integration and active technological policies.

Throughout the 80's, some significant changes occurred in the both two levels of technological activity of Spanish firms and the general orientation of policy. First of all, the consolidation of a strong cyclical boom was associated with an unprecedented increase in the internationalization of the economy. This was associated with the economic reform efforts of the socialist government that came to the power in the early 80's. The new government also introduced measures to reform the institutional framework of technology policy and scientific activity, including the establishment of national R&D plans as a basic instrument to increase domestic technological resources and the reorganization of the Centre for Technological and

Industrial Development (CDTI) as an agency to stimulate the innovative activity of firms (a range of incentives for R&D was also introduced at the level of the autonomous communities). The University Reform Law provided an institutional framework to put university research in touch with the business community and the sectoral plans of the Ministry of Industry and Energy were reorganized. The policy implemented in 1973, designed to improve the process of technology imports, was definitively abandoned, not just because the results were poor but because of the challenge and opportunity of entry into the EU in 1986. This certainly made easier a more favourable institutional framework for promoting technological innovation and enabled Spanish firms and researchers to take part in a range of international collaborative programmes.

Against this background there were some significant – though not sufficient – changes in the technological capacity of the Spanish economy. Throughout the 1980s, the share of R&D in GDP almost doubled, but stagnation in the

Figure 31
Comparative evolution of R&D/GDP



Source: OECD and own elaboration.

1990s meant that on average R&D stood at 0.9 per cent of GDP (figure 31). While this indicator shows that the gap with the rest of Europe has narrowed, it still remains substantial.

In respect of other indicators (such as number of patents and levels of importation of foreign technology) there it appears to have been a little change. While the lack of change in these respects may reflect more general internationalization trends in respect of technological activities (European Commission 1998), the Spanish case stands out for two reasons: first, the high initial level of dependency and second, the relatively low dynamism of technological exports generated in the Spanish economy (figure 32).

Overall then, the wide-ranging reforms have helped to improve the situation with regard to Spain's innovative capability (notably in education) and technological dependence. Still, in the new international context, R&D performance is still far away from satisfactory. Technology policy needed to be reconsidered, bearing in mind the need to relocate resources within an institutional structure that is more responsive to contemporary demands. Improving absorptive capabilities starts from devoting more resources (in both R&D and education) and in-

creasing tacit efforts. In this last period, those favourable conditions fared better, because of the much more intense international competition and the internationalization of the economy as described in the previous section.

3.3.5. Technological specialisation. Strengths and weaknesses.

To finish this analysis, it is very useful to make a balance of the relative position of the Spanish industrial sector regarding its technological international specialisation. In spite of there are other significant elements to evaluate that position, we understand the technological one reflects very well the strengths and weakness the system had at the end of the period under analysis.

To carry out this balance we use the concept of Revealed Technological Advantage (RTA), defined as follows for a defined period of time.

$$RTA_{ij} = (Pat_{ij} / Pat_{wj}) / (Pat_{itot} / Pat_{wtot})$$

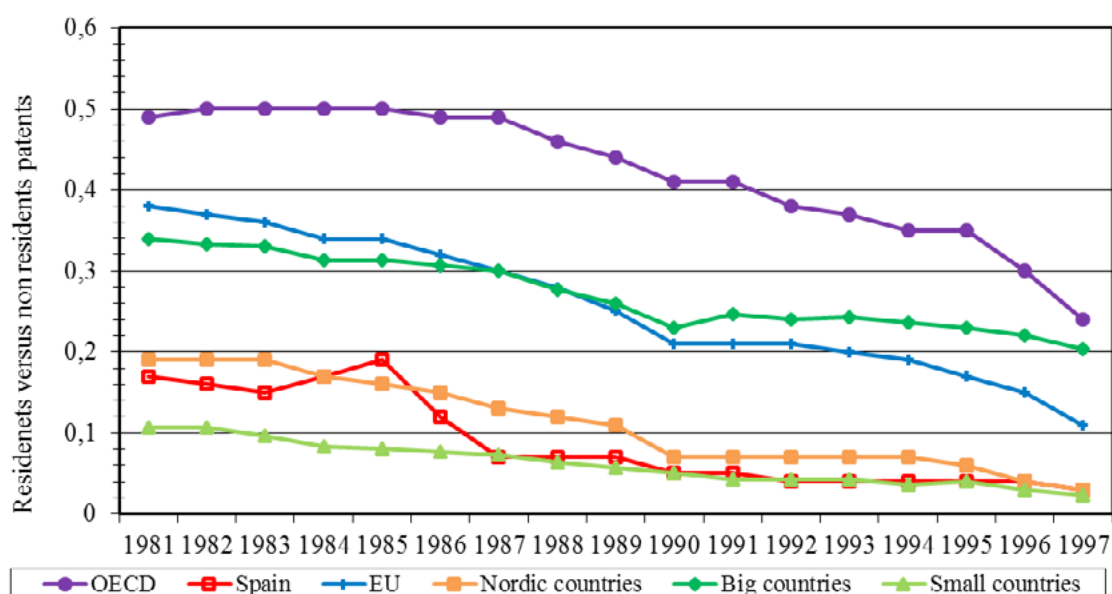
Pat_{ij} = Patents of the country i in the j sector

Pat_{wj} = Patents of the world in the j sector

Pat_{itot} = Total patents of country i

Pat_{wtot} = Total world patents

Figure 32
Auto-sufficiency ratio



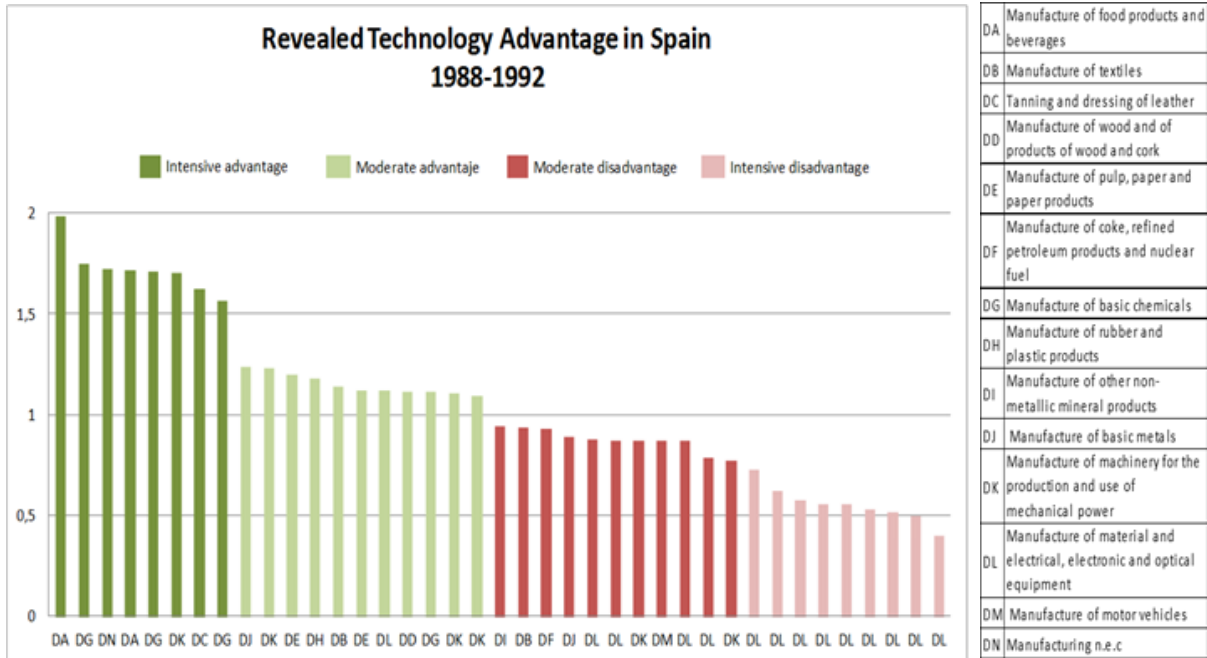
Source: Own elaboration with OECD data.

The interpretation is similar at what is currently done for the Revealed Commercial Advantage of Bela Balassa. If $RTA > 1$, means that country i performs relatively better in sector j than for its total technological activity; then we say country i has Technological Advantages in sector j. On the contrary way, if $RTA < 1$ we say country i has technological disadvantages because in this sect the country performs lower than for the average economy. Of course the higher $RTA > 1$ the greater are the advantages. Similarly, lower is $RTA < 1$, the more important are the disadvantages the country shows in the sector.

We have calculated the results for the years at the end of our period. Results are shown in figure 33. In order to have a simple a clearer picture we have eliminated those sectors for which the distance over or under 1 is very light. Moreover, we have distinguished sectors with intensive advantages or disadvantages when RTA is over 1,2 or below 0,8.

With the help of the NACE codes, it is relatively easy to catch the most relevant conclusions. Starting with sectors with intensive disadvantages, all belonging to DL category, that is, Electric and electronic material, close to ICTs technologies. Interestingly enough, practically all the rest of DL sectors also show disadvantages, although less intensive. The other side of the coin is shown by Intensive and moderate advantages group, in which we can find a number of the so-called traditional industries, plus some chemical and mechanical sectors. In other words, the capability of the Spanish industrial sector for competing in most technologically advanced sectors was clearly very limited, with a few exceptions. This will remain for the incoming years and will be a central part of the explanation of the more severe impact of future crisis.

Figure 33



Source: Own elaboration.

4. Concluding remarks.

This long paper concludes when Spain was immersed in a new economic crisis, in 1992-1993, which coincides with the last government, in minority, of the PSOE. A government that extends until the March 1996 elections, which will win the Popular Party.

The 1992-1993 crisis has as antecedent the outbreak of Japan's real estate bubble in 1990, the impact of the Gulf War between 1990 and 1991 and the conflict in the Balkans (due to Yugoslavia's disintegration) in 1991, all of them are going to lead to inflationary pressures. Between the second half of 1992 and the first one of 1993 the crisis of the European Monetary System occurs, when it begins to be doubted that the conditions of convergence defined in the Maastricht Treaty to reach the monetary union could be fulfilled. The trigger was the result of the referendum held in Denmark on 2 July 1992, in which the "no" to the treaty won (although in a later referendum, held on 18 May 1993, the "yes" came out). On 16 September, what was called Black Wednesday, the pound, the lira, the escudo and the peseta are devalued (the latter a 5%)⁴⁵, with the consequence that the United Kingdom and Italy withdraw from the European mechanism of exchange rates. There is a serious crisis in European monetary cooperation policies, as well as a lack of confidence that the economic and monetary union could take place. Domestically, in 1992, Spain was affected on the one hand by a severe drought, on the other by the exhaustion of the investment effort of the lavish 1992 events.

Once this crisis is over, a period of economic boom begins, in which the euro is put into operation, a period that will reach until the Great Recession 2008, in which Spain is going to suffer one of the most serious situations in its recent history. And despite the fact that Spain, according to the dominant interpretation, would have finally been able to *modernize* afterwards, first, the great economic acceleration and the important productive transformations of the

decades before the crisis of the 70s; second, the recovery of democracy; third, the entry into the European Economic Community; and, fourth, the integration into the Euro area and the uncritical acceptance of the unstoppable process of a new globalization. "Modernization" was an aspiration that came from the progressive elites since the nineteenth century. But, if it exists, it will not, in our view, place the country in a position equivalent to the central countries, as it will show what happened with the Great Recession.

The crisis of 1992-1993 had already revealed the important weaknesses of the Spanish economy, since its entrance into the European Economic Community did not correct the "structural" problems of the economy or society. In the prosperity period, between 1996 and 2007, the GDP of the Spanish economy grew slightly above the European Union as a whole, but less than the world GDP as a whole too. Although it is not the aim of this paper to analyse what has happened in the last 25 years, since it requires another essay, if it is worth briefly pointing out the factors that led to that growth. The first one is the progress made in non-negligible areas of the productive economy, with increasingly competitive sectors such as the agroindustry, part of the machinery and transportation industry and certain branches of chemistry. All combined with the availability of a more qualified workforce and greater capability to absorb technical progress. The second one, the aid from the European budget funds, which came to represent a percentage point more to GDP growth, an aid higher than it would have been in the Marshall Plan. The third one, the massive arrival of emigrants, especially from Latin America, who provided cheap labour where needed. And the fourth one, a boom in construction again, this time of a private origin linked to a real estate bubble, on which the financial system and, in particular, savings banks, played an essential role. Next to the real estate bubble was a banking bubble, with the Bank of Spain doing nothing about it, busy looking away, obsessed with asking for reforms in the labour market and in the public pension system (which supposedly

⁴⁵ Then came a second devaluation, on November 21, 1992, at 6%. And a third, on May 13, 1993, by 8%.

would be threatened with bankruptcy). The private indebtedness of financial institutions, non-financial corporations and families grew explosively, but not the public debt, which is very striking.

The real estate boom had a substantial increase in tax revenues, it is talked about of another bubble, the fiscal bubble, which even allowed after a long time General Government accounts closed with a surplus for three consecutive years (2005-2007). But these revenues went to the construction of infrastructures not always fully or effectively used, with often negative social returns. Wild construction and urban planning in many cases led to the destruction of the landscape and corruption as a business model, without any political parties with government responsibilities, national or regional, putting the slightest brake⁴⁶. It could even be said that this model of urbanism, to the extent that it would be linked in part to tourism, would imply a particular type of “extractivism”⁴⁷.

In spite of all of this, the message was “Spain is going well”. Spain was a country of success, an example to follow. The Great Recession has shown, in our view, that this statement should be considerably nuanced. Thus, important problems of the productive system remain without a long-term solution, especially those related to the capability to create technologies in quantity and quality enough to achieve a more robust and sustainable development. From the point of view of society, if it is true that the restoration of democracy was achieved, it was at the price of not touching, not talking about the past of the dictatorship. On the other hand, individual behaviour based

on tax fraud, the underground economy, persisted and even spread, being one of the highest in Europe, similar to that of the countries of Eastern Europe and that has not stopped to grow, in accordance to estimates that begin in 1964 and arrive until 2013. The picaresque, amorality and lack of ethics have increased without having generated any severe “punishment” in the votes received by the parties either on the right or the political centre.

We end this essay by stating that Spain’s success is not as clear as oneself wants to expose from orthodox positions or mainstream. This is not to deny in the least that there are aspects of the productive system which have changed, changes associated with the globalization process and the creation of global value chains, such as the fact that a set of companies become transnational and achieve to conquer foreign markets all around the world. Nor is it to deny that the Spaniards have managed to emerge from a dictatorship and establish a system of representative democracy, as well as to improve their standard of living, at least until the Great Recession, partly thanks to the construction of a modest Welfare State, as well as great strides have been made in civil, individual, minorities rights. On the other hand, other collective and communal rights have been reduced, inequality has not declined in recent years, while poverty has increased within the “austerity” mandate of what has come to be called “The Markets”⁴⁸.

⁴⁶ When the report of Margrete Auken (A6-0082/2009), on the impact of extensive urbanisation in Spain on individual rights of European citizens, on the environment and on the application of EU law, was discussed in the European Parliament, denouncing these abuses, the PSOE and PP MEPs were against its adoption.

⁴⁷ “(E)xttractivism will refer to those activities that remove large volumes of unprocessed (or limited) natural resources, especially for export as a function of the demand of the central countries. Extractivism is not limited to minerals or petroleum. There is also agrarian, forestry, fishing, including tourist extractivism”. (Acosta, 2016).

⁴⁸ Vitali S, Glattfelder JB, Battiston S (2011): “The Network of Global Corporate Control”. PLoS ONE 6(10): e25995. doi:10.1371/journal.pone.0025995.

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